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IMPLEMENTATION OF UNCTAD-WIDE ACTIVITIES IN FAVOUR OF LDCS

Progress report by the UNCTAD secretariat

Executive summary

The Programme of Action for the LDCs for the decade 2001-2010 adopted by the Third UN Conference on LDCs contains actions and commitments for implementation by the LDCs and their development partners. The effective implementation of the Programme of Action is expected to contribute to the stated objective of reversing the dire socio-economic situations in LDCs and, in the process, to put them on the path of sustained economic growth and sustainable development. To this end, UNCTAD, pursuant to paragraph 113 of the Programme of Action, has been undertaking a number of concrete steps towards mainstreaming actions and commitments contained in the Programme of Action into its work programme and into the work of its intergovernmental machinery. The present note is intended to provide member States with information that is as comprehensive as possible on the progress made in the implementation of UNCTAD-wide activities in favour of the LDCs, landlocked developing countries and small island developing States. The preliminary lessons to be drawn from the progress so far are: (i) building effective and sustained capacity in structurally handicapped LDCs is complex and requires a long-term perspective; (ii) regional and subregional projects and programmes generally tend to be cost-effective, while national projects focus more on specific problems and hence are oriented towards specific solutions in a given country; regional and national technical cooperation and capacity building activities are therefore seen as complementary; (iii) the existing gap and mismatch between resources available on the one hand and the unfulfilled needs of the least developed countries and the tasks identified to address them on the other are factors hampering the implementation of various programmes and projects; this matter needs to be addressed quickly and effectively through, *inter alia*, the provision of adequate financial and human resources; and (iv) where there has been genuine close cooperation and collaborative efforts with relevant organizations, including national counterpart institutions, the implementation of planned activities has been timely and constructive results have been realized.

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INTRODUCTION

1. At its forty-eighth regular session, the Trade and Development Board was appraised of the progress made in the implementation of the elements of the Brussels Declaration and the Programme of Action (PoA) that fall within the purview of UNCTAD (TD/B/48/16). The present note by the secretariat is also intended to provide member States with information that is as comprehensive as possible on the progress made in the implementation of UNCTAD-wide activities in favour of the LDCs. It is intended to serve as a basis for seeking their views and guidance on the future course of action concerning the implementation of the PoA as it relates to the mandate and competence of UNCTAD. The note covers activities that have taken place since the Brussels Conference, including those that were not reported during the forty-eighth session of the Board. The note also includes activities of the secretariat on landlocked developing countries (LLDCs) and small island developing States (SIDS).

2. The Programme of Action for LDCs for the decade 2001–2010 adopted by the Third UN Conference on LDCs contains actions and commitments for implementation by the LDCs and their development partners. The effective implementation of the PoA is expected to contribute to the stated objective of reversing the dire socio-economic situations in LDCs and, in the process, to put them on the path of sustained economic growth and sustainable development. This will, in turn, contribute to the global goal of poverty reduction and promote their beneficial integration into the world economy. As the PoA cuts across many sectors and complex political, economic, social and environmental issues, the challenges in implementing it are enormous and daunting. Section III of the PoA provides general orientations for coordination, follow-up and reviewing its implementation at national, sub-regional, regional and global levels. These levels are intended to be coherent and mutually supportive. The UN General Assembly (GA), the Economic and Social Council (ECOSOC), and the governing bodies of other organs and organizations of the UN system are assigned specific tasks in this regard. The Office of the High Representative for LDCs, LLDCs and SIDs, established by the General Assembly (A/56/227), will deal with coordinating, monitoring and reviewing the implementation of the PoA. Contacts between UNCTAD and the Office of the High Representative (OHR) both at the highest level and at working levels have already been established and important working relationships forged between the two entities. The working visit paid by the High Representative to UNCTAD on 22 May 2002 resulted in common understanding and shared responsibilities for the coordinated implementation of the PoA for LDCs. This is in line with the respective mandates and responsibilities of the two entities.

3. For its part, UNCTAD, pursuant to paragraph 113 of the Programme of Action, has been undertaking a number of concrete steps towards mainstreaming actions and commitments contained in the PoA into its work programmes and into the work of the intergovernmental machinery since the Conference. For instance, in its review of the efficiency and functioning of the intergovernmental machinery, the nineteenth special session of the Trade and Development Board, which took place in Bangkok, Thailand, from 29 April to 2 May 2002, adopted guidelines for the functioning of the UNCTAD intergovernmental machinery. According to these guidelines, "the Sessional Committee of the Board on LDCs will continue to focus on coordinating, reviewing and monitoring of UNCTAD-wide activities related to the implementation of the Programme of Action for LDCs for the present decade and discussions on

substantive and analytical issues of interest to LDCs". The special session of the Board also decided that, "following the publication of the Least Developed Countries Report, an executive session of the board on LDCs not exceeding three days will meet to discuss the report and other thematic and sectoral issues of interest to LDCs". Thus the LDC Report 2002 will be discussed at the executive session of the Board on LDCs scheduled to take place in early December this year. On issues within its mandates and competence, UNCTAD has intensified its work on LDCs, LLDCs and SIDS, focusing on research and policy analysis, consensus building, technical cooperation and capacity building.

I. RESEARCH AND POLICY ANALYSIS

4. The work of the secretariat on research and policy analysis focuses mainly on macro-economic, sectoral and thematic issues of interest to the LDCs, with special emphasis on trade, investment and technology among others. The overall objective of the research and policy analysis activities of UNCTAD is to contribute to global policy debates and consensus building on ways and means to beneficially integrate LDCs into the multilateral trading system and into the global economy.

5. A major element in the research and policy analysis work of the secretariat on LDCs is constituted by its analytical report on these countries. The Least Developed Countries Report 2002, entitled "Escaping the Poverty Trap", in its part I reviews recent developments in LDCs, including trends in financial flows to these countries and their external trade. This part of the Report also attempts to respond to the new challenges set by the PoA, in particular the central goal of poverty reduction. Since internationally comparable data on poverty trends are presently not available, the Report seeks to rectify this deficiency by constructing a new data set on poverty in LDCs combining national accounts and household survey statistics. The second part of the report deals with the nature and dynamics of poverty in the least developed countries. In this context, it describes the specificities of poverty in LDCs and analyses the complex interrelationships between growth and poverty and the ways in which these are affected by international trade. It provides a detailed account of generalized poverty in LDCs and analyses the pattern of trade integration. It pays particular attention to the relationship between commodity dependence and poverty, while taking into account the implications of such analyses in designing and implementing effective poverty reduction strategies.

6. UNCTAD has also made substantive contributions to the work of the Committee on Development Policy (CDP) of ECOSOC on the revision of the criteria and methodology for inclusion in and graduation from the UN list of LDCs. In this context, a note by the secretariat on the benefits associated with LDC status and the question of graduation (E/2001/CRP.5 and Add.1) was submitted to ECOSOC. UNCTAD's contribution to the work of the CDP on the question of graduation from LDC status includes an analysis on where the LDCs now stand in relation to established graduation thresholds. Also, in its substantive role on LDC- related issues and in response to ECOSOC resolutions E/2000/34 and E/2001/43, UNCTAD has initiated an analysis of the effective benefits derived from LDC status and of the question of "smooth transition" for graduating countries.

7. A special project was carried out by UNCTAD in collaboration with UNDP in furtherance of ECOSOC resolution 1993/79 on "Multisectoral collaboration on tobacco or health". The project, implemented in Malawi, addressed two interrelated issues on the economic, social and health aspects of tobacco production and consumption. These are: first, addressing the possible economic effects of reducing tobacco production in the tobacco-producing countries while taking into account the serious health consequences of tobacco use or consumption; and second, finding ways and means, in the context of diversification, of production and export marketing of new agricultural products that have high developmental and export potential. These two issues are of critical importance both to tobacco producers (and exporters) such as Malawi and to tobacco importing countries. The project, which combined series of national expert meetings and workshops, was carried out at the request of the Government of Malawi. A study prepared in the context of the project, entitled "Economic aspects of development of agricultural alternatives to tobacco production and export marketing in Malawi", is available at the UNCTAD website: http://www.unctad.org/trade_env/.

8. On market access, a study entitled: "Duty and quota free access for LDCs: Further evidence for computable general equilibrium modelling (CGEM)" was published as part of the UNCTAD series on Policy Issues in International Trade. A further study on market access in the WTO negotiations is forthcoming. In addition, UNCTAD, in collaboration with the Food and Agriculture Organisation (FAO) under a project financed by the UK Department for International Cooperation, has developed a partial equilibrium model – the "Agriculture Trade Policy Simulation Model" (ATPSM2002). These studies and the model containing detailed qualitative and quantitative analysis of trade policy issues would be valuable for LDC negotiators in the current WTO negotiations. The study can be obtained by downloading it from the UNCTAD website, and interested LDC delegations can obtain the ATPSM2002 model free of charge.

9. With a view to making available the research and policy analysis work of UNCTAD, especially the LDC Report, to the widest possible range of users at national and global levels, further efforts are being undertaken by the secretariat. These include establishing a database of government ministries, private and public institutions dealing with trade, investment and other issues of importance for LDCs, research centres, universities, subregional groupings, NGOs and the private sector. In addition, and as soon as the reconstruction of the UNCTAD website is completed, extensive use will be made of information and communication technologies for posting major research work of the secretariat on LDCs. The necessary preparations have been completed to send the LDC Report 2002 to relevant entities entered in the database for well-targeted distribution of the research work of the secretariat.

II. TECHNICAL COOPERATION AND CAPACITY BUILDING

10. As requested in the Bangkok Plan of Action, the Office of the Special Coordinator has developed a "Framework for Technical Cooperation Strategy" for LDCs, LLDCs and SIDS. This framework outlines a general approach and defines a process for future identification, design, development and implementation of technical cooperation activities in LDCs, drawing on UNCTAD's comparative advantage. It will provide broad guidelines for specific technical cooperation activities in favour of LDCs. It also aims at providing a focused, coordinated and

more effective delivery of technical cooperation activities within UNCTAD for these countries. Furthermore, the secretariat is developing a database on its technical cooperation activities in LDCs. This will enable the secretariat to keep track of past technical cooperation activities, monitor the progress of ongoing ones and assess their overall impact on the economic development of LDCs in an integrated manner. The database will also assist in responding immediately to the queries of member States on matters related to technical cooperation activities of UNCTAD in the countries concerned.

11. The focus of the technical cooperation and capacity building activities of the secretariat is on addressing supply and demand side constraints facing these countries. Particular emphasis is placed on areas such as human resources development, institutional capacity building and policy advice on a wide range of issues, especially trade, investment, technology and enterprise development, as well as debt management. One of the main challenges confronting the secretariat in this field is to ensure that its technical cooperation and capacity building programmes, including training activities, enhance the institutional capacities of LDCs to design and implement sound development policies.

A. International trade and commodities

12. In response to the Ministerial Declaration of the Fourth WTO Ministerial Conference – the Doha Development Agenda – UNCTAD has prepared comprehensive proposals for capacity building and technical cooperation activities. The proposals contain detailed activities comprising policy analysis, human resources development and institutional capacity building, which are among the principal functions and mandates of UNCTAD. In parallel with the post-Doha programme of work and in implementing actions and commitments contained in the PoA that relate to trade, the secretariat has undertaken several activities in LDCs. These technical cooperation and capacity building activities implemented in LDCs on international trade and related issues relate to: (i) commodity diversification; (ii) trade negotiations and commercial diplomacy; (iii) trade and competition policy; (iv) trade and environment; and (v) services infrastructure for development and trade facilitation. Furthermore, in the context of the Integrated Framework for Trade-related Technical Assistance for LDCs (IF), UNCTAD has been cooperating with other core agencies in the implementation of the IF Pilot Scheme in the initial three LDCs (Cambodia, Madagascar and Mauritania) and in the additional 16 countries to which the IF has been extended. This cooperation includes contributing inputs to the diagnostic trade integration studies led by the World Bank, as well as participating in the national workshops organized to consider the findings and recommendations emerging from the studies and formulating responses in the form of concrete project proposals for the technical assistance priorities identified. A summary on the status of the implementation of the IF will be provided in a Conference Room Paper.

1. Commodities

13. In this sector, LDCs have been assisted in identifying ways and means of intensifying horizontal and vertical diversification of their commodities export base. This assistance includes, among other things, the implementation of a project on "Capacity building for diversification and commodity-based development". The project, which is financed through the UN

Development Account, covers 37 LDCs – 26 in Africa, 6 in Asia and 5 small island developing States in Oceania. Assistance was provided through policy advice, research, and training and workshops. Recommendations of the workshops in the framework of this project call for specific activities to be implemented in individual LDCs. In this connection, a workshop on "Links between artisan fisheries and world markets" was organized in Gambia in April 2002, and a workshop on horticulture sector development is planned for Guinea in July 2002. Furthermore, from 18 to 20 September 2001, UNCTAD organized a "Regional workshop on the constraints, challenges and prospects for commodity-based development and diversification in Pacific island economies" in Nadi, Fidji. The small island States that took part in the workshop were Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu. More information on these and other commodity-related workshops, including background documents prepared for them and the recommendations, can be found at http://www.unctad.org/infocomm/diversification/index.htm.

2. Trade negotiations and commercial diplomacy

14. UNCTAD, in cooperation with other relevant organizations such as the WTO and the ITC, has organized several training and capacity building activities on issues related to trade negotiations, accession to the WTO, and market access for LDCs.

(a) Trade negotiations

15. Within the framework of the Commercial Diplomacy Programme, several training exercises, seminars and workshops have been conducted on trade and trade-related issues from which LDCs have benefited. The overall objective of these activities is to accelerate human resources development in the LDCs on key trade and related issues that are of critical importance for their development. For instance, as part of its ongoing work on commercial diplomacy, UNCTAD organized a number of regional and national workshops in April/May 2002 on multilateral trade negotiations in general and on agriculture and services negotiations in particular. A regional workshop on agriculture negotiations for countries of the Economic Community of Western African States (ECOWAS) took place in Conakry, Guinea, from 8 to 12 April 2002. Fifteen countries of the Community, of which 12 are LDCs, participated in the workshop. A national workshop on issues in Agriculture and Services Negotiations of the WTO was organized in Dakar, Senegal, from 21 to 26 April following a request by the Government of Senegal. Another national workshop on Services was organized in Kampala, Uganda (from 23 to 29 May) for the Ugandan Inter-Ministerial Taskforce on WTO. In preparation for the request/offer phase of the GATS negotiations, UNCTAD, in collaboration with the Commonwealth Secretariat and the SADC Secretariat, organized a regional trade negotiating forum in Namibia from 20 to 24 May 2002 in which several LDCs took part.

16. The general thrust and focus of these activities was on: (a) examining major issues in WTO negotiations in the light of national or regional interests; (b) helping countries understand the timeframe for and modalities of negotiations; (c) assisting national committees on WTO to draw up their plans of action to meet the challenges of negotiating deadlines; (d) appraising and exposing participants to methods of negotiations such as the "request/ offer approach" adopted by the Services Council on services negotiations. Generally the workshops offered participants opportunities to understand the negotiating issues and enabled the national committees to

develop their respective schedules for the forthcoming negotiations. In the case of the ECOWAS workshop, participants were able to exchange best practices, identify their national and regional interests in the ongoing WTO negotiations and formulate joint negotiating positions. The structure, contents and outcome of these national and regional workshops could be used as a model for UNCTAD's activities in favour of LDCs and other interested countries for their effective and informed participation in the WTO negotiations.

17. Similarly, UNCTAD and the World Tourism Organization have jointly organized a "Consultation on Tourism Development in the Least Developed Countries". The consultation, which took place on 16 March 2002 at the International Congress Center (ICC) in Berlin, was sponsored by the Spanish Agency for International Cooperation (AECI). The event brought together 25 representatives, among them 15 participants from 8 LDCs, including four participants at the ministerial rank, and 6 experts from international cooperation agencies and research institutes. The main objectives of the consultation were: (a) to exchange views and best practices on the contribution of tourism to poverty reduction in LDCs; (b) to seek advice from national and international experts on implementing the Canary Islands Plan of Action (March 2001), the conclusions of which were included in paragraphs 63 and 64 of the Programme of Action for the LDCs; and (c) to identify modalities for mobilizing international support for the implementation of the recommendations of the Canary Islands Plan of Action. In this regard, participants in the consultation recommended several specific actions, including those aimed at enhancing the contribution of tourism to poverty eradication in LDCs.

18. A special national workshop entitled: "A consultative approach to trade policy formulation and management" was also organized in Kampala, Uganda, from10 to 12 December 2001 for parliamentarians on issues related to trade policy, the multilateral trading system, the WTO trade rules and the work of UNCTAD, among others. The workshop highlighted the fact that, as legislators, MPs have the duty to modernize and put in place the legal framework to support the changing trade and economic environment. They therefore require specific technical assistance and up-to-date information and analysis on the legal instruments that the Ugandan economy will require in its process of integration into the global market. The workshop provided an opportunity for constructive exchanges of views between the resource persons, both local, and of staff of the WTO and UNCTAD on the one hand, and the Members of Parliament on the other. It was also a source of updated information and enlightenment on practical measures to take when seeking technical assistance from the WTO or UNCTAD.

(b) Accession to the WTO

19. Trade-related technical assistance for capacity building was also provided to LDCs in the process of accession to the WTO. Such assistance includes building human capacity through training of trade negotiators and workshops on specific issues in the WTO accession negotiations, and providing advisory missions to acceding countries to support their preparations for these negotiations. The main beneficiaries included Bhutan, Cambodia, Lao People's Democratic Republic, Nepal, Samoa, Sudan and Yemen.

(c) Market access

20. In terms of policy-oriented work on issues of market access for LDCs, most generalized system of preferences (GSP) handbooks have been updated, since all initiatives in favour of LDCs such as the EU's "Everything but arms" (EBA) initiative and the United States African Growth and Opportunity Act (AGOA) have been taken in the framework of the GSP schemes. These updates are disseminated to LDCs and their enterprises, including during national workshops. Several LDCs have benefited from national seminars and workshops on issues related to the GSP, rules of origin and product coverage, among others. For instance, in May 2002 the UNCTAD secretariat, at the request of the Government of Cambodia, organized a national seminar on the GSP and rules of origin. The seminar provided an important opportunity for Cambodian trade officials and exporters to understand fully and benefit from the various GSP schemes. A similar workshop is scheduled to take place in Yemen in September 2002.

3. Trade and competition policy

21. In the area of competition policy, UNCTAD has implemented a capacity building programme on competition law and policy which is tailored to the needs of the LDCs. Activities are designed with the purpose of improving the ability of enterprises in the LDCs to compete effectively, both domestically and in international markets, and make markets work better for the poor. Activities are demand-driven and are implemented for LDCs and their regional integration groupings (which aim at establishing regional competition policy), such as UDEAC or UEMOA. Beneficiaries have included: Angola, Benin, Burkina Faso, Central African Republic, Chad, Guinea, Malawi, Madagascar, Mali, Mauritania, Sudan, United Republic of Tanzania, and Zambia. Support has also been provided to LDCs to participate more effectively in multilateral discussions on competition policy. UNCTAD and the University of Geneva co-organized a one-week intensive course in Geneva (June 2001) on the international trading system and its interface with competition policy with some 30 participants from the LDCs. Six LDCs participating in the course were sponsored by UNCTAD.

4. Trade, environment and development

22. In the area of trade, environment and development, UNCTAD and UNEP have jointly prepared a capacity building programme tailored to meet the needs of LDCs. This is to be implemented within the framework of the UNEP-UNCTAD Capacity Building Task Force on Trade, Environment and Development (CBTF). The Programme contains a global and several regional components, supporting regional and country-specific training workshops, thematic research, country projects and regional policy dialogues. A CBTF workshop was held in Brussels (21–22 February 2002) to discuss policy options to promote production and trading opportunities for organic agricultural products. The workshop, which was funded by a grant from the European Commission and hosted by the ACP secretariat, allowed for a very informative and constructive dialogue that involved more than 50 policy makers and representatives of certification bodies, intergovernmental organizations, aid agencies, civil society, academics and other stakeholders from developing and developed countries. LDCs participating in the workshop included: Cambodia, Ethiopia, Haiti, Mozambique, Senegal, Uganda and Zambia. The linkages between trade and environment were also discussed at a seminar for the Community of

Portuguese-speaking Countries (CPLP), with the joint cooperation of the secretariat of CPLP and UNCTAD, in Geneva in July 2001.

23. A project on "Standards and Trade" (ITN 99/A64) funded by the International Development Research Centre (IDRC) in Canada helps to identify policies aimed at addressing constraints faced by developing countries in general and the LDCs in particular. The project was designed in response to sanitary and phytosanitary (SPS) measures and environmental requirements in international markets that pose serious challenges to LDCs. LDCs participating in the project are Bangladesh, Mozambique, Nepal, Uganda and the United Republic of Tanzania. A number of studies were prepared, including scoping papers for Africa and Asia and special studies on fisheries and organic agriculture in Uganda. Also, a workshop on the subject was organized in Geneva, Switzerland, from 16 to 17 May 2002 with the participation of the five LDCs already covered by the project.

5. Services infrastructure for development and trade efficiency

24. In the field of services infrastructure for development and trade efficiency, LDCs have been assisted in: (a) human resources development; (b) establishing Trade Points; and (c) improving transport, trade facilitation and customs systems.

25. With regard to human resources development, UNCTAD has developed an international network of cooperation with universities and institutions of higher learning that are responsible for training in the field of international trade. It has also developed new courses on port management (the Port Certificate) and organized sessions for training of trainers in this field. A distance-learning course on the Port Certificate was carried out for six months from October 2001 to March 2002 for the port communities of Senegal and Comoros. Also in the Port Certificate Programme, two regional training-of-trainers seminars have been organized. The first was held in Ghent, Belgium, in October 2001 for French-speaking countries of Africa, with the participation of Benin, Cameroon, Comoros, Guinea and Togo. The second was in Cape Verde in November 2001 for the Portuguese-speaking African countries (Angola, Cape Verde, Guinea-Bissau, Mozambique). An international meeting was also organized by UNCTAD in Porto, Portugal, from 13 to 16 May 2002 with the objective of discussing the new UNCTAD strategy on port training, including its implementation modalities in developing countries. Forty-six representatives attended the meeting from 23 developing countries, of which the majority were LDCs (Angola, Benin, Cape Verde, Cambodia, Gambia, Guinea-Bissau, Guinea, Mozambique, Sao Tomé and Principe, Senegal, United Republic of Tanzania and Togo). A Plan of Action was adopted for the implementation of the UNCTAD port management training programme in these countries.

26. Several of UNCTAD's training packages have been clustered within the TrainforTrade project to strengthen training capacities of LDCs in the field of international trade. The subjects covered include the following: multimodal transport and logistics; competition law and policy; trade and environment; and investment targeting and promotion. For these training activities and for distance-learning courses, pedagogical materials such as a participant's manual, a user's guide, and a CD-ROM with multimedia presentations, videos and case studies were developed and adapted to local situations in these countries. Thirty high-level officials (10 from Benin, 10

from Burkina Faso and 10 from Mali) were trained simultaneously on competition law and policy in November/December 2001 through distance learning on training of trainers. The distance-learning courses were followed by a traditional seminar held in Burkina Faso where participants, selected from the previous distance learning exercise, received in depth training. Trainees were provided with a CD-ROM, a user's guide, a participant's manual, videos and a comprehensive working plan. With regard to distance-learning courses, regular consultations between the UNCTAD staff, the director of the courses and the instructors were held through an Internet discussion forum once or twice a week.

27. With regard to the Trade Point Programme, progress has been made in establishing two new Trade Points in Kathmandu, Nepal, financed through a technical cooperation project on Nepal's accession to the WTO (NEP/96/010). A fact-finding mission to Kathmandu was organized from 22 to 29 March 2002 with a view to identifying potential partners that could host a Trade Point in Nepal. Also, a Trade Point is to be launched soon in Ouagadougou, Burkina Faso, financed through JITAP. In Rwanda, following a request by the Government, a feasibility study for establishing a Trade Point is to be conducted as soon as possible. Funds for a study are being made available by UNDP through the Eastern African subregional development centre.

28. On transport, trade facilitation and customs, UNCTAD's assistance aims at improving the capacity of LDCs to create efficient trade-supporting services and to benefit from the opportunities generated by the advances in information and communication technologies (ICTs). A number of LDCs, including Bangladesh, Burkina Faso, Nepal, Sudan and the United Republic of Tanzania, have been assisted through the provision and installation of the Advance Cargo Information System (ACIS), a transport management tool which tracks cargo and transport equipment on rail, at ports and on rivers and provides transport-related statistics. In customs reform, national administrations in LDCs (e.g. Bangladesh, Benin, Burkina Faso, Chad, Ethiopia, Gambia, Madagascar, Maldives, Malawi, Nepal, Sao Tome and Principe, Yemen and Zambia) have benefited from the implementation of the Automated System for Customs Data (ASYCUDA). Most of the recent activities in the area of customs modernization are related to the implementation of projects for migration to ASYCUDA++ in several LDCs. Also in 2002, new ASYCUDA projects were signed and started in Cape Verde (financed by the Government of Luxemburg), Mauritania (financed from the national budget) and Togo (financed from the national budget).

B. Investment, technology and enterprise development

29. In this field, UNCTAD has provided technical assistance to LDCs in the framework of two programmatic sectors: attracting investment and benefiting from it; and strengthening enterprises and technology capacity.

30. The first set of activities includes: (a) participation in a multi-agency technical assistance programme (involving UNCTAD, the Foreign Investment Advisory Service (FIAS), the Multilateral Investment Guarantee Agency (MIGA) and UNIDO) to facilitate FDI in the target countries like Cambodia, Mali, Mozambique, United Republic of Tanzania and Uganda; (b) technical assistance to improve the national investment climate by preparing investment policy reviews (United Republic of Tanzania, Ethiopia, Cambodia, Lesotho, Mauritania, Nepal and

Senegal) and by promoting good governance in investment promotion and facilitation (Ethiopia, Lesotho, Maldives, Mali and United Republic of Tanzania); a workshop on Efficient and Transparent Investment Promotion Practices that took place in Geneva on 6 and 7 June 2002; (c) an intensive training programme on international investment agreements and negotiating bilateral investment treaties and double taxation treaties. Fifteen LDCs have participated in different training courses since the Third UN Conference on LDCs; a round of bilateral investment treaty negotiations for a group of LDCs was organized in Bonn, Germany, in October 2001; this event brought together seven LDCs (Cambodia, Eritrea, Malawi, Mozambique, Sudan, Uganda and Zambia) and five development partners (Belgium, Luxembourg, France, Netherlands and Sweden) and resulted in 13 bilateral investment treaties; and (d) preparation of investment guides, public/private sector dialogue and the Investment Advisory Council for LDCs. The investment guides for Uganda and Mozambique have already been published, and other guides will be prepared and published over the next three years. A meeting of the UNCTAD/ICC Investment Advisory Council (IAC) for LDCs was organized, in cooperation with the Global Compact and the Governments of Germany and Norway, during the UN Finance for Development Conference in Mexico on 20 March 2002. The meeting focused on the role of investment in contributing to the implementation of NEPAD. The Secretary-General of the United Nations chaired the high-level segment of the meeting, and the President of Senegal, the Prime Minister of Mozambique and Ministers from a number of LDCs participated. The event provided an opportunity for business leaders and senior government officials to interact and exchange views between and among themselves. A number of projects aimed at improving the investment climate in African LDCs were proposed. Progress on the implementation of these projects will be reported on at the next meeting of the IAC in Johannesburg in September 2002.

31. The second set of activities, aimed at strengthening enterprise and technological capacity, includes: (a) the UNCTAD Linkages Promotion Programme, with special attention being paid to women entrepreneurs; and (b) building productive capacities in LDCs through EMPRETEC. Enterprise Uganda, a joint undertaking of the UNCTAD EMPRETEC Programme and the Enterprise Africa Initiative, was officially launched in December 2001. It has secured funding of US$ 1.5 million, mainly from UNDP and from other sources. So far two training courses have been organized by Enterprise Uganda, and the target for 2002 is to train about 120 local entrepreneurs. Besides the regular follow-up services to strengthen the empretecos' firms, a special initiative is being funded by the Government of Germany to assist women entrepreneurs and make the EMPRETEC programme more gender-sensitive. Discussions are also under way with the Ugandan Investment Agency and several donors to start a business linkage programme. Since access to finance is the principal constraint facing growing SMEs, Enterprise Uganda is making a special effort to combine its business services with financial services. In April 2002, together with the Bank of Uganda and UNCTAD, it held a symposium for 250 bankers, SMEs, aid agencies and ministry officials to discuss ways and means of financing SMEs. The participants jointly produced a plan of action containing a series of recommendations, and the major stakeholders agreed to set up a special Task Force on Financing SMEs to implement these recommendations. In addition, Enterprise Uganda has forged an alliance with a venture capital firm, INCOFIN. It is also discussing a partnership with Barclays and with SPEED, a loan guarantee programme funded by USAID. This combination of SME business services, finance for SMEs and business links will build the productive capacity that developing countries need to compete in the global economy. A further project proposal was prepared and is being discussed

with the secretariat of the Community of Portuguese-Speaking Countries and with UNDP for possible funding for the implementation of the project.

C. Technical solution to debt management (DMFAS)

32. UNCTAD has promoted effective, development-oriented and durable solutions to the debt problems of LDCs. The Debt Management and Financial Analysis System (DMFAS) programme has provided technical assistance in debt management. This assistance includes advice on institutional legal and administrative issues and training in DMFAS and debt management. The Debt Management and Financial Management System (DMFAS) programme continues to provide its services to several LDCs in Africa and Asia. In this regard, Angola, Bangladesh, Burundi, Central African Republic, Chad, Djibouti, Ethiopia, Haiti, Rwanda, Sao Tome and Principe, Sudan, Togo, Uganda, Yemen and Zambia have received assistance from UNCTAD on debt management. Beyond the day-to-day support for all of these installations, the programme has been very active in seeking new funds for specific country activities in upgrading and installing software and providing training and other technical and advisory services at the request of beneficiary countries. Since May 2001, the programme has started a new project in Chad and follow-up projects have been agreed with the Governments of Angola, Bangladesh, Burundi, Djibouti and Togo. Furthermore, negotiations are currently ongoing to upgrade the installations in Ethiopia.

D. Other mandated activities

33. On landlocked developing countries (LLDCs), UNCTAD's recent activities focus mainly on supporting the preparatory process for the International Ministerial Meeting of Landlocked and Transit Developing Countries, Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation, scheduled to take place in Kazakhstan in 2003. The Ministerial Meeting, to be convened pursuant to General Assembly resolution 56/180, has both long-term and immediate objectives. Long-term or development objectives relate to the furtherance of support in favour of landlocked and transit developing countries in order to facilitate their beneficial integration into the world economy and contribute to their economic development. The immediate objectives of the meeting are to review the current situation of transit transport systems, including the implementation of the 1995 Global Framework for Transit Cooperation, and to formulate, *inter alia,* appropriate policy measures and action-oriented programmes aimed at developing efficient transit-transport system. A project proposal outlining the different preparatory phases, detailed activities and financial requirements has been prepared by UNCTAD and submitted to potential donors for funding.

34. Similarly, as part of its ongoing activities on small island developing States, in 2001–2002 the secretariat has undertaken important technical cooperation activities in favour of SIDS. These included the preparation of revised country-specific vulnerability profiles in anticipation of the 2003 review of the list of LDCs, training on offshore financial services regulation and supervision (St. Lucia), trade policy advice (Samoa), investment policy advice (Vanuatu), and support for the Forum Secretariat in the formulation of a model law for Pacific SIDS on

intellectual property rights related to biodiversity. These and other activities were undertaken within the framework of the implementation of the Barbados Programme of Action for SIDS.

III. FUTURE ACTIVITIES: BROAD ORIENTATIONS

35. In consultation with member States and in close collaboration with relevant organs and organizations of the UN system, UNCTAD will continue to make substantive and technical contributions in implementing the Programme of Action for LDCs for the current decade. In this regard, the secretariat's future activities on LDCs will be guided by the overall orientation outlined in the outcome of the nineteenth special session of the Board on the Mid-term Review. In its work on research and policy analysis, the secretariat will continue to address macroeconomic, sectoral and thematic issues of interest to the LDCs in the context of its biennial report on LDCs. Further efforts are currently under way to ensure that the LDC Report and other research activities will focus on more pressing policy challenges confronting these countries in their efforts to integrate beneficially into the global economy. The technical cooperation activities of UNCTAD will focus on, *inter alia,* human resources development and institution building in the areas of policy formulation, implementation and negotiation on key trade, investment, technology and other development-related issues. Hence, building investment promotion and negotiation capacities, strengthening trade-supporting institutions, and promoting commodity diversification will be priority areas for the technical cooperation activities of the secretariat. The overall objective of these activities is to contribute to the sustained economic growth and sustainable development of LDCs by improving the productive capacities of the countries concerned and by fostering their competitiveness. The aim is also to improve their participation in multilateral trade negotiations and to contribute to their beneficial integration into the global economy.

IV. STATUS OF THE LDC TRUST FUND

36. The LDC Trust Fund established by UNCTAD IX at Midrand, South Africa, remains a critically important vehicle to finance UNCTAD-wide activities on LDCs. A number of countries have made financial contributions to the Trust Fund since its inception in February 1997. These include: Belgium, Cyprus, Denmark, Finland, France, Ghana, Holy See, India, Ireland, Italy, Norway, Portugal, Republic of Korea, Sweden and Switzerland. Cumulative contributions to the fund showed a marked increase in 2001, reaching US$ 5,189,480 and slightly surpassing the original target of US$ 5 million. The increase was mainly due to generous contributions from traditional and non-traditional donors especially earmarked for the preparations of the Third UN Conference on LDCs and for enhancing the participation of LDCs in the preparatory process for the Conference. The challenge now is to ensure regular and timely replenishment of the fund in order to be able to match the increasing requests from LDCs for new technical assistance and capacity building activities of the secretariat. During UNCTAD X in Bangkok, member States agreed that the "implementation of activities in favour of LDCs requires regular replenishment of the LDC trust fund, as well as the provision of contributions in kind" (TD/386, para. 163).

V. CONCLUSIONS AND LESSONS LEARNED

37. As indicated at the outset, the purpose of this note is to inform member States of the progress made in the implementation of UNCTAD-wide activities in favour of LDCs, LLDCs and SIDS and to seek their guidance on future course of actions. The above activities of the secretariat point to three important conclusions: (a) the capacity-building needs of the LDCs are complex and wide-ranging; (b) there is scope for further improvement in the linkages between UNCTAD's analytical and operational activities; (c) the potential exists for further strengthening of inter-agency cooperation. It is too early to draw any conclusion on the impact of the activities undertaken at this stage of the implementation of the PoA, and the lessons learned can only be indicative. However, from the activities undertaken and the range of issues addressed, it is safe to conclude that the task of capacity building facing the LDCs, LLDCs and SIDS is complex and calls for long-term perspectives requiring concerted efforts by all stakeholders.

38. With regard to linkages between the analytical and research work of UNCTAD on the one hand and its operational capacity building and technical cooperation activities on the other, positive and encouraging results have been achieved. Moreover, all the activities implemented in favour of these countries are not only within the mandates and competence of UNCTAD but are also demand-driven. Capacity development and institution building activities, as indicated above, have direct regular interactions with the research and policy analysis work of UNCTAD. Whereas the analytical work of the organization addresses macroeconomic, sectoral and thematic issues of interest to the countries concerned, the capacity building and technical cooperation activities are generally aimed at equipping them to better respond to the challenges facing them in the global economy. Likewise, a number of training courses, workshops and seminars organized at the national, subregional and regional levels have significantly contributed to the objective of human resources development and institutional capacity building through information dissemination, awareness creation and training of trainers. The training activities have also assisted in identifying the needs and gaps existing in various countries and regions on specific issues of interest to the beneficiary countries and the areas for possible intervention by UNCTAD and/or by other partner organizations, and in formulating concrete capacity building projects and programmes for follow-up action. Distance-learning courses were found to be cost-effective and can be provided to different locations at the same time on various topics and issues. Nevertheless, it is important for such courses to be followed by seminars and workshops, which would provide participants with the opportunity to learn from each other and exchange best practices. There should also be a systematic attempt to link training with concrete follow-up activities aimed at institution building so as to enable the countries concerned to design and implement sound development policies.

39. Another interesting and more encouraging trend observed in the delivery of technical cooperation and capacity building programmes is the evolution of interagency cooperation. There was close collaboration between the various organs and organizations of the UN system, regional organizations, subregional groupings and the private sector in several areas of intervention covered by the report. This trend is expected to continue and strengthen in the future in the interrelated areas of trade, investment, technology, environment and development. Interagency cooperation may, however, be constrained by uneven distribution of technical cooperation resources among agencies, which diminishes the potential benefits and impact of

possible joint activities. In such a situation, joint fund raising efforts remain an option, and donors as well as agencies should bear that option in mind.

40. The preliminary lessons to be drawn from the above are: (i) building effective and sustained capacity in structurally handicapped LDCs is complex and requires a long-term perspective; (ii) regional and subregional projects and programmes provide an opportunity for exchange of experiences, and they generally tend to be cost-effective, while national projects focus more on specific problems and hence are oriented towards specific solutions in a given country; regional and national technical cooperation and capacity building activities are therefore seen as complementary; (iii) the existing gap and mismatch between resources available on the one hand and the unfulfilled needs of the least developed countries and the tasks identified to address them on the other are factors hampering the implementation of various programmes and projects. This matter needs to be addressed quickly and effectively through, *inter alia*, the provision of adequate financial and human resources; and (iv) where there was genuine close cooperation and collaborative efforts with relevant organizations, including national counterpart institutions, the implementation of planned activities was timely and constructive results were realized.

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LEAST DEVELOPED COUNTRY STATUS: EFFECTIVE BENEFITS AND THE PERSPECTIVE OF GRADUATION

Report by the UNCTAD secretariat

Executive Summary

This issues note has been prepared to facilitate the debate at the 49th regular session of the Trade and Development Board on the benefits effectively derived, and the perspective of graduation, from LDC status. The subject is in line with recent concerns that were echoed by the Economic and Social Council. In its resolution 2000/34, the Council looked forward to the report of UNCTAD "*on the effective benefits derived by the least developed countries specifically on the basis of their inclusion in the list of the least developed countries and on the practical impact of the measures in favour of least developed countries*". In resolution 2001/43, ECOSOC urged "*the international organizations, bilateral donors and graduating or near-graduating countries to initiate a debate concerning the treatment of graduating countries with a view to ensuring that the graduation of a country from the list of the least developed countries should not result in disruption to its development plans, programmes and projects, and the importance of ensuring a smooth transition from least developed country status for countries that become eligible for graduation*". In its draft resolution 2002/L.27/Rev.1, ECOSOC urged "*the international organizations, bilateral donors and graduating or near graduating countries to continue the debate*" concerning the treatment of graduating countries.

The action envisaged in the note is expected to facilitate the fulfilment of the United Nations Millennium Development Goals and the Programme of Action for the LDCs for the decade 2001-2010. The note argues that establishing a closer link between the structural difficulties experienced by individual LDCs as measured through the LDC criteria, and the special treatment of these countries by virtue of their LDC status, would enhance the effective impact of this status. It also highlights the link between the desirability of graduation from LDC status, and the importance of granting, before graduation, international support measures that will have a durable impact on the structure of the economy.

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I. Introduction

1. Since 1971, the United Nations has denominated as "least developed countries" (LDCs) a category of countries that are structurally handicapped in their development process, and in need of a high degree of support, in their development efforts, from the international community. In the light of the criteria used for determining the list of LDCs (see annex 1), these countries are defined as low-income countries suffering from acute weaknesses in their human capital and their economic structure. Many international support measures have been offered to the LDCs. The nature and scope of these measures have been influenced by the general evolution of international economic cooperation, in particular in the area of development financing and in the multilateral trading system. The three United Nations conferences on the Least Developed Countries (1981, 1990, 2001) significantly contributed to enhancing the support given to these countries by the international community.

2. However, despite three decades of efforts, the socio-economic situation of most LDCs did not improve. The *Least Developed Countries Report 2002* noted that "the number of people living in extreme poverty in the LDCs has more than doubled over the last thirty years"[1]. Most LDCs face a risk of increased marginalization from the global economy, and this situation could undermine the international community's efforts to fulfil the Millennium Development Goals of the United Nations (MDGs). This raises a credibility issue, not only about the world's capacity to meet the MDGs, but also regarding the LDC status and the benefits that are normally expected to be derived from this status. The Programme of Action for the LDCs for the decade 2001-2010 recommends that a more supportive international environment be created for the LDCs, and highlights seven key areas of commitments on the part of LDCs and their development partners. The international community is now faced with the challenge of translating these commitments into concrete policies, so that new opportunities for reducing poverty and achieving progress towards graduation in the LDCs are realized.

3. The rationale for establishing the LDC category and for allowing the LDC criteria to evolve on several occasions was that special international support measures ought to be granted to these countries in response to their acute structural handicaps. ECOSOC's recent interest in an examination of the effective benefits derived from the LDC status[2] underscores the importance of this rationale, and calls for international support measures more specifically designed in the light of the structural handicaps of the LDCs (as captured through the criteria) and granted by virtue of the LDC status. This approach relies on using specific knowledge –LDC profiles in the light of the criteria— to enhance the international support given to the relevant countries[3]. It contributes to enhancing the credibility of the LDC status by seeking maximum benefits from this status, and therefore implies the necessity to assess past benefits prior to envisaging possible adjustments in some relevant international support measures. UNCTAD is currently carrying out a country-specific analysis of the effective benefits derived from the LDC status, in response to the concern raised by ECOSOC.

4. This note aims at (a) highlighting a range of issues regarding the effective impact of the special treatment of LDCs, and the perspective of graduation from the LDC status; (b) contributing to the international debate, within the United Nations system, on promoting a better impact of the special treatment of LDCs, and securing a "smooth transition" for graduating

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[1] UNCTAD, *The Least Developed Countries Report 2002*, p. iii.
[2] see ECOSOC resolution 2000/34, cited in the executive summary.
[3] The *Least Developed Countries Report 2002* noted that "policies based on inadequate knowledge are likely to increase rather than reduce poverty".

countries; and (c) delineating the scope of action through which UNCTAD could contribute to promoting a more effective impact of the special treatment of LDCs. It is hoped that the work envisaged below will facilitate the fulfilment of the United Nations Millennium Declaration and of the Programme of Action for the LDCs for the 'ecade 2001-2010, while taking into consideration the work programme launched by the Fourth Ministerial Conference of the World Trade Organization (Doha, November 2001), and the Monterrey Consensus from the International Conference on Financing for Development (March 2002).

II. International support measures and the effective benefits associated with the LDC status

5. A number of questions arise in any examination of the link between the international support measures (ISMs) relevant to LDCs, and the benefits that have effectively accrued to these countries by way of special treatment. Firstly, to what extent have the ISMs for LDCs been determined by virtue of the LDC status, as opposed to other statuses based on other criteria? Secondly, whenever special measures in favour of LDCs were announced, to what extent were they effectively "delivered" as promised, effectively used when delivered, and effectively absorbed by relevant recipient populations when used? Thirdly, to what extent have ISMs benefited LDCs through structural socioe-conomic effects that enabled these countries to demonstrate durable progress towards graduation?

A. Are international support measures explicitly granted by virtue of the LDC status?

6. Despite the general acceptance of the LDC status, a large part of the support received by most LDCs is determined on the basis of non-LDC criteria. The LDC status is a determinant of special treatment in three principal areas: (a) in the preferential access of LDC products to the markets of trading partners that offer an LDC-specific treatment; (b) in several agreements of the World Trade Organization; and (c) in the access of LDCs to special measures and programmes of technical assistance offered by the United Nations system, and by the six organizations that sponsor the Integrated Framework for trade-related technical assistance to the LDCs (annex 2).

7. In contrast, in the field of development financing, the impact which the LDC status has had on the official development assistance (ODA) received by LDCs is difficult to estimate, and generally deemed to have been limited. Most aid inflows and related financial transfers have been determined on the basis of other criteria, most of which were low-income-related criteria. Concessionary financing is generally allocated under cooperation schemes that do not refer (or refer only marginally) to the LDC status as an operational determinant of the eligibility for aid. Per capita income is the predominant criterion used by most bilateral and regional partners, in addition to political criteria (among bilateral donors) and criteria relevant to creditworthiness (regional development banks). As low-income countries, 42 LDCs and 23 non-LDCs benefit from a wide range of concessionary financing facilities, a treatment which the seven "lower-middle-income" LDCs cannot necessarily expect[4].

[4] Seven LDCs (Cape Verde, Djibouti, Equatorial Guinea, Kiribati, Maldives, Samoa, Vanuatu) are classified as "lower-middle-income" countries by the World Bank (per capita GNI between $756 and $2,995 in 2000).

B. Are international support measures delivered as promised?

8. LDC-specific ISMs relevant to market access have generally been "delivered" as pledged, although there is still scope for improvements in market access conditions (e.g. by improving rules of origin and reducing non-tariff barriers). Special concessions for LDCs under World Trade Organization agreements are automatically extended to LDC members of that organization. In the area of technical assistance, ISMs for LDCs have not been implemented as fully and rapidly as expected. The modest results generated by the Integrated Framework since this scheme was instituted (1997) constitute one aspect of the gap observed between promised ISMs and relevant effective benefits to LDCs. The most substantial gaps between announced ISMs and "delivered" ISMs have been observed in the area of development financing, through differences between ODA commitments and the effective ODA performance of development partners[5].

C. Are international support measures effectively used by beneficiary countries?

9. A third type of gap has been observed between the potential offered by LDC-specific ISMs that were "delivered" and the extent to which these ISMs were effectively used by recipient countries. This gap has been common in the area of market access: the degree of utilization of preferential arrangements in favour of LDCs has always been low in a majority of LDCs, because of weaknesses in export supply capacities and in the ability to take advantage of such arrangements. There are also situations where technical assistance is made available by development partners, but institutional weaknesses in recipient LDCs dampen the possibilities of taking consistent advantage of technical cooperation programmes. In the field of development financing, many LDCs have not been able to develop or maintain a sufficiently absorptive capacity in response to project financing opportunities.

D. Do benefits from the LDC status involve a genuine structural impact?

10. The fourth type of gap between the benefits that had originally been expected from the LDC status and those effectively derived by the LDCs relates to the nature of the impact of relevant ISMs. LDCs generally need ISMs to induce structural socio-economic progress or transformation, in particular human capital development and economic diversification. ISMs with a significant structural impact could place LDCs in a situation of durable improvement, by virtue of which these countries would normally become better able to achieve progress towards graduation thresholds. Whether most of the benefits accruing to LDCs were "structural" along these lines has often been questioned, and is currently the subject of a detailed analysis at country levels by the UNCTAD secretariat.

E. Reducing the gaps: a joint responsibility of LDCs and their development partners

11. Only a careful examination of the effective benefits derived from the LDC status can cast light on the gaps described above, and assist the international community in reducing these gaps. The latter will often imply increasing the absorptive capacities of recipient countries, in particular by targeting the core constraints highlighted by the LDC criteria. Reducing the gaps may also involve revisiting the nature or modalities of some of the concessions offered by the development partners of the LDCs.

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[5]As the *Least Developed Countries 2000 Report* noted, net ODA to LDCs, in real per capita terms, declined by 45 per cent over the 1990s, and the share of aid to LDCs in DAC donors' GNP had fallen from 0.09 per cent in 1990 to 0.05 per cent in 1998, a year in which only 5 DAC members met the targets of the Programme of Action for the LDCs for the 1990s (0.20 per cent or 0.15 per cent of GNP).

12. Examining the ISMs granted to LDCs by their development partners reveals that the LDC status has had a relatively limited impact. One observes that the LDCs and their development partners have not established a systematic operational link between the factors underlying the eligibility of a country for LDC status on the one hand, and the support to be given to this country in response to its specific disadvantages according to the LDC criteria, on the other hand. In this context, an avenue for enhancing the use and credibility of the LDC status would be, before granting LDC-specific treatment, to take into consideration the particular needs of the country in the light of its performance under the LDC criteria. Besides the per capita income and human capital indicators, particular attention would be given to the key elements of the composite Economic Vulnerability Index (see annex 1), and specifically to the indicators of instability of agricultural production and of goods and services exports. Then, granting a range of desirable ISMs by virtue of the LDC status of the country could be organized in response to weaknesses and vulnerabilities as identified through the criteria.

13. Two fundamental aspects of this approach to the link between the LDC status and its effective impact are as follows: (a) this approach implies an active partnership between the LDC and its development partners in the special treatment, particularly at the early stage of identifying the need for an LDC-specific treatment; and (b) it is a country-specific approach that calls for a matching of the ISMs that will be granted by virtue of the LDC status of the country with the specific needs of this country in the light of the LDC criteria. Each LDC would be invited to devise key elements of a country-specific treatment or package of ISMs relevant to priority needs. This could be done through a process in which the link between the specific disadvantages to be dealt with and the special treatment expected by virtue of the LDC status would be explicitly highlighted. This exercise began, in most LDCs, during the preparation for the Third United Nations Conference on the Least Developed Countries, through the formulation of national programmes of action. To a varying extent, development partners have already responded to the relevant needs with a view to inducing a structural impact, in particular through ISMs that contribute to reducing vulnerability to economic or natural shocks. ISMs that have already had a structural impact could be usefully analysed in the light of the situation of the country under the criteria (instability of exports, etc.). Meanwhile, the identification of structural handicaps that did not receive sufficient attention could guide the formulation of new ISMs of direct relevance to these handicaps.

III. The perspective of graduation from LDC status

14. Although a large majority of the LDCs remain relatively far or very far away from graduation thresholds, there are significant differences in the evolution of LDCs vis-à-vis the graduation borders (see annex 3). An examination of the position of each LDC under the graduation thresholds allows a distinction between the LDCs that are clearly off the graduation route, and those –very few— for which graduation can eventually be anticipated. Subsequent to the graduation of Botswana in 1994, there were three cases of full eligibility for graduation from LDC status (i.e. eligibility pronounced after relevant criteria had been met in two consecutive reviews): Vanuatu in 1997, and Cape Verde and Maldives in 2000. However, none of these three LDCs has graduated from the category[6].

[6] Vanuatu was technically no longer eligible for graduation in 2000. Cape Verde and Maldives did qualify for graduation in that year, but ECOSOC decided that in the absence of sufficient clarity in the international community's willingness to grant "smooth transition" measures to graduating countries, the decision to graduate the relevant countries should be postponed.

A. Limited progress toward graduation thresholds

15. In the 2000 review of the list of LDCs, eight LDCs (Bangladesh, Equatorial Guinea, Eritrea, Liberia, Madagascar, Samoa, Tuvalu, Vanuatu) met one graduation criterion. This has been an encouraging situation, even though it is insufficient to justify full eligibility for graduation. Thirty-nine LDCs did not meet any graduation criterion at the time of the 2000 review of the list. However, among these 39, 15 States had demonstrated progress towards the graduation threshold relevant to the Economic Vulnerability Index/EVI (Angola, Burkina Faso, Central African Republic, Chad, Comoros, Ethiopia, Guinea, Kiribati, Malawi, Mali, Mauritania, Nepal, Niger, Sao Tome and Principe, Sierra Leone), while three demonstrated consistent progress under the diversification/vulnerability criterion (Burundi, Uganda, Yemen), and one (Bhutan) enjoyed continued progress under the quality-of-life criterion.

16. Two of the 15 countries that recorded progress under the EVI (Kiribati and Sao Tome and Principe) met one graduation criterion in the past. In the three LDCs where consistent progress has been observed under the EDI/EVI, the graduation line remains relatively far away. The progress made over the years by Uganda in its economic diversification was specially noted.

17. In the 20 other LDCs, there was no consistent progress under any graduation criterion. These countries are: Afghanistan, Benin, Cambodia, the Democratic Republic of the Congo, Djibouti, the Gambia, Guinea-Bissau, Haiti, the Lao People's Democratic Republic, Lesotho, Mozambique, Myanmar, Rwanda, Senegal, the Solomon Islands, Somalia, Sudan, Togo, the United Rep. of Tanzania, and Zambia. In four of them (Haiti, the Lao People's Dem. Rep., Lesotho, Solomon Islands), one graduation criterion was met in the past (per capita GDP in Haiti; APQLI in the Lao People's Dem. Rep., Lesotho and the Solomon Islands) and ceased to be met either in 2000 (Lesotho, Solomon Islands) or in 1997 (Haiti, the Lao People's Dem. Rep.), particularly because of prolonged socio-political instability (Haiti, Solomon Islands).

18. Overall, there are limited graduation prospects for the LDCs in the current decade. At best, only the four potential graduation cases that had been noted in the 1997 review (Cape Verde, Maldives, Samoa, Vanuatu) might evolve towards graduation, but the special case made by these countries on grounds of island-specific vulnerability could also enable them to retain their LDC status until the idea of "smooth transition" for graduating countries has become a reality. Among the six other LDCs meeting one graduation criterion (Equatorial Guinea, Liberia, Tuvalu, Bangladesh, Eritrea, Madagascar), none except Tuvalu has yet come near to demonstrating a capacity to meet a second graduation criterion.

B. International support measures and structural progress

19. The link between special international support measures and the objective of structural socio-economic progress is an important aspect of the rationale for granting LDCs a more favourable treatment. There are, however, situations where the relationship between LDC-specific benefits and socio-economic progress is loose, or non-existent. For example, there can be LDC-related benefits and yet no sign of consequent structural progress. This is found in situations where LDC-specific benefits principally consisted of trade preferences, and where such preferences, though potentially beneficial to future exporters, have not had any structural impact in the absence of relevant export supply capacities. Conversely, there have been situations where socio-economic progress did take place, but not as a result of effective benefits from the LDC status. The latter case is relatively common among the LDCs that have come near graduation thresholds, and in which the eligibility for graduation (observed through relevant progress in the

per capita income and human capital situation) was explained by steady growth in one or two economic sectors, such as international tourism.

20 As the eligibility for inclusion in the list of LDCs is based on three criteria, structural progress towards graduation ought to be interpreted in the light of the same criteria, subject to methodological differences between the inclusion rule and the graduation rule. Structural progress cannot be interpreted as confined to growth in per capita income. Fundamentally, it implies human capital development and improvements in the structure of the economy, in particular sound economic diversification that will reduce the exposure to adverse external shocks. The conceptual breakthrough that took place in 2000, when the criterion of economic vulnerability was introduced, underscored the recognition of the importance of aiming at a lesser structural fragility in order to achieve genuine progress towards graduation borders.

C. Structural progress and the graduation rule

21. Graduation from the LDC status implies durable improvement in the human capital and in the resilience of the economy with regard to adverse external shocks. However, there have been situations of eligibility –or near-eligibility— for graduation without significant structural progress in the economy, or without a lowering of the structural handicaps that explain economic vulnerability. Conversely, there have been situations of structural economic progress (captured through a lower economic vulnerability) without convergence towards graduation borders, because the graduation rule, which implies that at least two graduation thresholds be reached, was not met[7].

22. The issue of eligibility for graduation without significant structural progress raises the question of the appropriateness of the current graduation rule whereby meeting two graduation criteria (over two consecutive review periods) is sufficient to imply that a country is able to graduate from LDC status. One could take the view that not only two, but all three graduation criteria ought to be met (all three graduation thresholds should be reached) for an LDC to be deemed able to exit the LDC category, so that no country with a poor score under the vulnerability criterion (no country situated below the graduation line under the EVI) is found eligible for graduation. Annex 4 illustrates, through the relationship between LDC benefits, structural progress and eligibility for graduation, the current two potential graduation cases (Cape Verde and Maldives) on the one hand, and what could be a preferred scenario for recognizing the readiness of these countries to graduate, on the other hand.

23. The notion of smooth transition from LDC status implies that the loss of international support measures granted by virtue of that status should not harm the graduating country in its development process. Harmlessness could involve "phasing out" arrangements (as opposed to a sudden loss of concessions), if not partial retention of LDC benefits insofar as such retention will be deemed vital to the beneficiary countries. "Smooth transition" has so far been a dormant notion to which most of the development partners of LDCs have given little consideration in anticipation of graduation cases[8].

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[7] Bangladesh and Madagascar, in the 2000 review of the list of LDCs, rose above the graduation line relevant to the economic vulnerability criterion (as a result of structural progress through economic diversification), but remain relatively far from being eligible for graduation, considering their poor performance under the low-income and human-capital criteria: see UNCTAD, Graduation from the Least Developed Country status: where do the LDCs stand?, UNCTAD/LDC/Misc. 83, 2002, 55 p.

[8] see ECOSOC, The benefits associated with the least developed country status and the question of graduation, Note by the Secretary-General, E/2001/CRP.5, 17 July 2001, p. 18.

D. The "island paradox" and the need for a more differential approach to graduation

24. In the light of the present potential graduation cases, which are all relevant to small island developing States (SIDS), the debate on the relevance of "smooth transition" measures for graduating countries raises a paradox that policy makers of SIDS have been pointing to for many years: SIDS often appear relatively prosperous on the basis of the per capita income criterion, which is a determining factor of their eligibility for graduation. However, they are generally among the most economically handicapped and vulnerable countries, and for this reason, they are often among those least prepared to face the impact of graduation (loss of concessionary treatment) from LDC status for least developed SIDS, or from other types of special treatment (concessionary financing) for more advanced SIDS.

25. The "island paradox" reflects a facet of the imperfection of the current special and differential treatment of developing countries by the international community. It reveals the fact that the treatment is insufficiently "differential" in its attempt to deal with the specific problems of vulnerable economies, even though these problems have been widely recognized within the United Nations system.

IV. Conclusion: towards a better impact of the special treatment of LDCs

26. The existence of the LDC status is based on the recognition, by the international community, of the serious disadvantages which LDCs face in their development efforts as a result of weaknesses in their human capital and economic structures. With such disadvantages, the LDCs are faced with the risk of inability to converge with the rest of the global economy, and to escape the "poverty trap". The rationale for granting LDCs special international support measures is well accepted by the international community. However, the paramount objective of structural socio-economic progress, which had been envisaged as a *raison d'être* of the category, has remained largely unfulfilled. The fact that only one country graduated from the list of LDCs while the size of the category almost doubled calls for a critical review of the effectiveness of the special treatment of LDCs. Furthermore, there is the perception of a growing contrast between the diversity of individual situations and prospects among the LDCs, and the uniform nature of the treatment of LDCs by the international community.

27. There has also been a concern, in the last five years, about a paradox: the few small island LDCs that have come near to "graduation borders", and would soon be invited to exit the category, happen to be among the economically most vulnerable LDCs, and among those least prepared to face the loss of special support measures associated with graduation, given their continuous need for LDC benefits. This is illustrated by the fact that relevant "borderline" countries, for valid reasons, have difficulties with the idea of graduating in the near future.

28. Overall, there are questions about the impact of the LDC status, at the same time as a general perception of the legitimacy of the status. It is generally felt that some meaningful efforts to revisit the question of the effective benefits and to promote a "smooth transition" for graduating countries would be sufficient to reinforce the pertinence of the category. There is a need to ensure that the LDC status, which is universally accepted and conceptually well founded, is translated into an effective tool for socio-economic transformation and convergence with other developing countries, regardless of the anticipated length of the road to graduation[9]. An interesting approach to enhancing the effective impact of the LDC status could be found in a new

[9] The *Least Developed Countries Report 2002* noted, however, that "it will be difficult for the LDCs to get on and move up the ladder of development if the more advanced developing countries face a 'glass ceiling' which blocks their development", p. 235.

logic in which the need for some special measures would be pre-determined on a country-specific basis, in the light of the criteria, and would call for closer responses by ISMs to the needs thus highlighted.

29. As the promoter of the LDC status, the United Nations has a special role in alerting the international community to a number of gaps between the intentions that had originally been stated in favour of the LDCs, and the benefits that have effectively accrued to these countries as a result of the status. Reinforcing the structural impact of LDC-specific international support measures is of particular importance. A new approach to the use of the LDC status would not challenge the benefits derived by LDCs from other statuses. It would make LDC-specific benefits complementary to other benefits, thereby enhancing the overall impact of international cooperation in favour of the LDCs.

Possible areas of action for consideration by the Trade and Development Board

30. Within the limits of its current resources, UNCTAD will be able to focus on the following activities, with a view to enhancing the benefits effectively derived from the LDC status, and accelerating the progress of some LDCs towards graduation borders:

(a) Periodic evaluation of the effective benefits derived by each LDC from its status (including the extent to which available international support measures have been effectively utilized, and the extent to which relevant benefits have had a structural socio-economic impact); this exercise was initiated in 2000-2001, at country levels, for the preparation of the national programmes of action that were presented to the Third United Nations Conference on the LDCs;

(b) Periodic evaluation of the progress made by each LDC toward graduation thresholds; this exercise was launched in 2002 as an input to the work of the Committee for Development Policy[10]. It will be pursued and expanded on a yearly basis, with particular attention given to "borderline" cases of graduation;

(c) Preparation of selected country-specific vulnerability profiles to highlight the particular need for structural benefits, with a view to monitoring structural progress under the vulnerability criterion, and in keeping with relevant commitments under the Programme of Action; this exercise was first carried out in 2000, in the context of the review of the list of LDCs, for Cape Verde, Maldives, Samoa, and Vanuatu. It could be extended to other LDCs;

(d) UNCTAD could make a key contribution to the mid-term review of the Programme of Action for the LDCs for the 2001-2010 decade through a global assessment of the effective benefits that have been gained by LDCs by virtue of their LDC status; UNCTAD would at the same time be able to formulate a set of recommendations for improving the global range of concessionary measures offered by the international community by virtue of the LDC status, and propose an "exit strategy" framework for countries near graduation borders, with particular reference to the need for a "smooth transition" of these countries.

31. These activities are envisaged as a source of useful inputs to the work of ECOSOC. In anticipation of tasks (i) and (iv) above, there is a need for all development partners to indicate the

[10] see UNCTAD, Graduation from the Least Developed Country status: where do the LDCs stand?, UNCTAD/LDC/Misc. 83, 2002, 55 p.

areas of their cooperation with LDCs that involve international support measures granted by virtue of the LDC status.

32. The experience gained from the preparation of the Third United Nations Conference on the Least Developed Countries showed that LDCs will require assistance in elaborating national priorities and strategies and identifying the particular international support measures that could respond to the structural problems observed under the criteria. Subject to the availability of extra-budgetary resources, UNCTAD could assist selected LDCs in these areas. The few LDCs that have come near to graduation borders could be assisted in identifying desirable "smooth transition" measures as a framework for their eventual graduation. For the "second wave" of countries behind the potential graduation cases (i.e. countries demonstrating some structural progress, but not yet foreseeing graduation in the near future), country-specific packages of measures could be formulated in the light of an analysis of structural disadvantages as measured under the LDC criteria. LDCs with a long road to graduation would also be urged to formulate country-specific packages (indicating mixes of expected benefits) in keeping with the long-term poverty reduction strategy and its implications for desirable special measures. LDCs that already have or will have a Poverty Reduction Strategy Paper should use this opportunity to highlight the elements of the strategy that call for an LDC-specific treatment.

33. Besides contributing valuable inputs to the overall monitoring of the fulfilment of the Millennium Development Goals, these activities will generate analytical findings and recommendations that will be useful to all stakeholders and facilitate the effective monitoring and evaluation of the implementation of the Programme of Action.

Annex 1

Evolution in the methodology for identifying LDCs

	Years			
	1971	**1991**	**2000**	**2002** (in anticipation of the 2003 review of the list of LDCs)
Low income criterion	***Per capita* GDP:** $100 or less in 1968 prices; a lower cut-off point and an upper cut-off point were considered, until 1990, in applying the inclusion rule (1990: $473 and $562, respectively)	**Per capita GDP**: three-year average, converted at each year's official exchange rate (under $600 for inclusion, above $700 for graduation)	**Per capita GDP**: three-year average, converted at each year's official exchange rate (under $900 for inclusion; above $1,035 for graduation)	**Per capita GNP**: as calculated in the World Bank Atlas (thresholds for inclusion and graduation have not yet been determined)
Weak human capital criterion	**Adult literacy rate:** 20% or less	**Augmented Physical Quality of Life Index (APQLI):** calculated as a simple average of four component indicators: - life expectancy at birth - per capita daily calorie intake - combined primary and secondary school enrolment ratio - adult literacy rate	**Augmented Physical Quality of Life Index (APQLI):** calculated as a simple average of four component indicators: - child mortality rate (under age 5) - per capita daily calorie intake as a percentage of the relevant requirement - combined primary and secondary school enrolment ratio - adult literacy rate	**Human Assets Index (HAI):** calculated as a simple average of four component indicators: - child mortality rate (under age 5) - per capita daily calorie intake as a percentage of the relevant requirement - secondary school enrolment ratio - adult literacy rate
Weak economic structure criterion	**Share of manufacturing in GDP:** 10% or less	**Economic Diversification Index (EDI):** calculated as a simple average of four component indicators: - share of manufacturing in GDP - share of industry in the labour force - annual per capita commercial energy consumption - UNCTAD's merchandise export concentration index	**Economic Vulnerability Index (EVI):** calculated as a simple average of five component indicators: - share of manufacturing and modern services in GDP - UNCTAD's merchandise export concentration index - an index of instability of agricultural production - an index of instability of exports of goods and services - population size (in logarithm)	**Economic Vulnerability Index (EVI):** calculated as a simple average of five component indicators: - share of manufacturing and modern services in GDP - UNCTAD's merchandise export concentration index - an indicator of instability of agricultural production - an indicator of instability of exports of goods and services - population size (in logarithm)

Inclusion rule	A country qualified to be included in the list of LDCs if it met the above three criteria, or the first and the third or the second and the third criteria if the country did not exceed a certain cut-off point under the first criterion.	A country qualified to be added to the list of LDCs if it met the above three criteria and did not have a population greater than 75 million.	Unchanged	Unchanged
Graduation rule	None	A country would be recommended for immediate graduation from the LDC status if it had met at least two of the three graduation criteria in two consecutive triennial reviews. Graduation criteria: the three graduation criteria have been the same as the three inclusion criteria (low income, weak human capital, weak economic structure), subject to a margin between the inclusion threshold and the graduation threshold.	Unchanged	Unchanged
Supplementary considerations	When one criterion was not met but per capita GDP was close to the lower cut-off point, judgement on inclusion would have to be exercised to take into account specific circumstances such as an exceptionally low rate of real growth in recent years.	If either the APQLI or the EDI criterion was not met, certain qualitative characteristics, such as having a very small population (one million or less) or being land-locked or geographically isolated, or exposed to frequent natural disasters, could justify a recommendation for inclusion in the list of LDCs.	If any of the three graduation criteria (per capita income, human resources structural vulnerability) is near its threshold, a country-specific vulnerability profile is called for to enable CDP members to make a sound judgement about adding a country to the list of LDCs if there is a proximity to the inclusion threshold regarding any of the three inclusion criteria while the other two are clearly met. Likewise, a vulnerability profile will be needed if a country exceeds two of the three graduation thresholds while remaining close to the threshold for at least one of the two.	Unchanged

Annex 2

Summary of expected international support measures
by virtue of the LDC status

Areas of special treatment	Special treatment derived from the LDC status	Treatment derived from Developing country status
I. Trade		
Market access (whether the beneficiary country is a WTO Member or not)	(a) **Non-reciprocal preferences on developed countries' markets** Generalized System of Preferences (GSP) Special treatment of LDCs under autonomous GSP schemes providing advantages in terms of tariffs and rules of origin (in the schemes of the EU, Canada and the United States) Prospects for duty-free and quota-free treatment on the Quad countries' markets for essentially all products originating from LDCs The ACP-EU partnership Current level of non-reciprocal trade preferences for ACP LDCs (like non-ACP LDCs) results from the "Everything But Arms" (EBA) initiative From 2008, a non-reciprocal trade regime is likely to continue to be applied to ACP LDCs (b) **Non-reciprocal preferences on developing countries' markets** Global System of Trade Preferences (GSTP) Special concessions for participating LDCs Regional trading arrangements Special concessions for participating LDCs in some cases	(a) **Non-reciprocal preferences on developed countries' markets** Generalized System of Preferences (GSP) Preferential treatment Prospects for general tariff reduction The ACP-EU partnership At present, non-reciprocal trade preferences for ACP non-LDCs From 2008, reciprocal trade regime (b) **Reciprocal preferences on developing countries' markets** Global System of Trade Preferences (GSTP) Concessions for participating countries Regional trading agreements Concessions for participating countries
Within the World Trade Organization (WTO)	(a) **Exemption from obligations** Agriculture Exemption from the obligation to reduce barriers Subsidies Exemption from prohibition on export subsidies	(a) **Temporary exemption from obligations** Agriculture Reduction commitments to be implemented over a period of 10 years Subsidies Same exemption applies only if the developing country is a low-income country

	(b) **Transitional period for implementation of WTO agreements or provisions** Sanitary and phyto-sanitary measures (SPS) Transitional period of up to 5 years in implementing the provisions of the Agreement regarding measures that affect imports TRIMs 7-year transitional period (with possibility of extension) to eliminate TRIMs that are inconsistent with the Agreement TRIPs Delay for up to 10 years (with possibility of extension) in implementing most TRIPs obligations (c) **Other special and differential treatment** Textiles and clothing Significantly more favourable treatment by Members that would be making use of transitional safeguards GATS Special priority given to LDCs in implementing Article IV of the GATS Settlement of disputes Members to "exercise due restraint" in raising matters involving an LDC Member, or in seeking compensation or authorization to suspend concessions to an LDC (d) **Accession to the WTO** Accession of LDCs remains a priority. In the Doha Ministerial Declaration, the ministers agreed "to work to facilitate and accelerate negotiations with acceding LDCs"	(b) **Transitional period for implementation of WTO agreements or provisions** Sanitary and phyto-sanitary measures (SPS) Transitional period of up to 2 years only TRIMs Transitional period of 5 years only TRIPs General transitional arrangements for implementation of most obligations (5 years or 10 years in certain cases) (c) **Other special and differential treatment** Textiles and clothing Differential and more favourable treatment in the fixing of economic terms, subject to volume exported GATS General efforts to encourage the participation of developing country Members in trade in services Settlement of disputes Various provisions for developing country Members (d) **Accession to the WTO** The WTO Secretariat provides, upon request, technical assistance to the Governments of acceding countries
II. Official development assistance (ODA)	ODA target 0.15 or 0.20 per cent of donor countries' GNP was expected to be devoted to LDCs	ODA target 0.7 per cent of donor countries' GNP was expected to be devoted to developing countries
III. Technical cooperation		
Integrated Framework for Trade-Related Technical Assistance (IF), sponsored by six core organizations (IMF, ITC, UNCTAD, UNDP, WB, WTO)	All LDCs can have access to trade-related technical assistance under the IF	No IF assistance

Annex 3

Summary of the situation of LDCs vis-à-vis graduation borders

LDCs meeting no graduation criterion in 2000:	
LDCs demonstrating no consistent progress under any criterion	Afghanistan, Benin, Cambodia, Dem. Rep. of the Congo, Djibouti, Gambia, Guinea-Bissau, Haiti*, Lao People's Dem. Rep.*, Lesotho*, Mozambique, Myanmar**, Rwanda, Senegal, Solomon Islands*, Somalia, Sudan, Togo, United Rep. of Tanzania, Zambia
LDCs demonstrating sudden progress as a result of the substitution of the EVI for the EDI	Angola, Burkina Faso, Central African Rep., Chad, Comoros, Ethiopia, Guinea, Kiribati*, Malawi, Mali, Mauritania, Nepal, Niger, Sao Tome and Principe*, Sierra Leone
LDC demonstrating consistent progress under the quality-of-life criterion (APQLI)	Bhutan
LDCs demonstrating consistent progress under the economic diversification/vulnerability criterion (EDI/EVI)	Burundi, Uganda, Yemen
LDCs meeting one graduation criterion in 2000:	
LDCs meeting the low-income criterion of graduation (per capita GDP)	Equatorial Guinea, Liberia, Tuvalu, Vanuatu**
LDC meeting the quality-of-life criterion of graduation (APQLI)	Samoa**
LDCs meeting the economic diversification/vulnerability criterion of graduation (EVI)	Bangladesh, Eritrea, Madagascar
LDCs currently eligible for graduation, for which the decision about graduation has been postponed	Cape Verde (since 1994), Maldives*** (since 1997)
LDC already graduated:	Botswana (1994)

*countries that met one graduation criterion before 2000 and did not meet any in 2000
**countries that met two graduation criteria before 2000 and only one or none in 2000
***country that met three graduation criteria before 2000 and only two in 2000

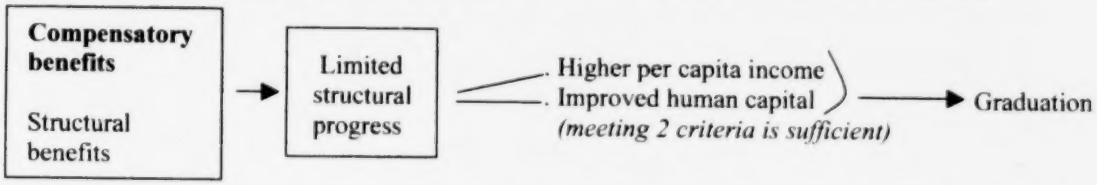
Source: UNCTAD, Graduation from the Least Developed Country status: where do the LDCs stand?, UNCTAD/LDC/Misc. 83, 2002.

Annex 4

Two options for the graduation rule

The current scenario

(structural progress is limited, vulnerability is high, graduation is debatable)

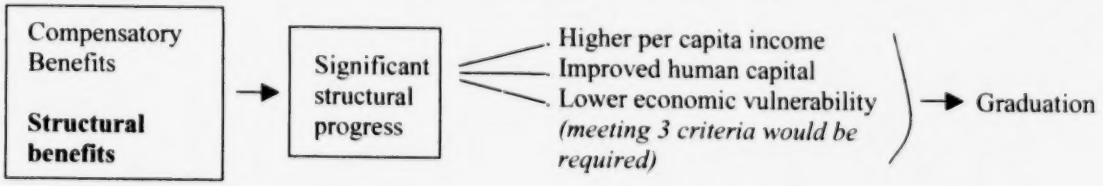


Cape Verde: Effective benefits from the LDC status and relevant structural progress have been limited. However, the per capita income and human capital criteria for graduation are met, while economic vulnerability remains high. Graduation, though expected on technical grounds, is undesirable in the absence of significant structural progress, because of the continuous dependence of the human capital performance on foreign aid (including food aid).

Maldives: Effective benefits from the LDC status have been mainly compensatory (zero-tariff access to the EU's tuna market). Structural economic progress (beneficial specialization in tourism) has been little related to the LDC status. Graduation, though expected on technical grounds, is likely to harm the tuna industry and entail a mismatch between future aid inflows and growing financial needs associated with acute structural disadvantages.

An alternative scenario

(structural progress would have taken place, vulnerability would be lower, graduation would be better founded)



Cape Verde: Graduation would not be envisaged until effective structural benefits have generated relevant structural progress (food self-sufficiency, diversification), unless graduation is organized in the context of a smooth transition with great flexibility.

Maldives: Graduation would not be envisaged until effective structural benefits have generated structural progress under the national population relocation strategy (sea-level rise), and until answers have been brought to the question of "smooth transition" regarding the EU market and future aid levels.

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ECONOMIC DEVELOPMENT IN AFRICA

FROM ADJUSTMENT TO POVERTY REDUCTION
WHAT IS NEW?

OVERVIEW

Executive Summary

Previous reports by the UNCTAD secretariat on economic development in Africa have examined in some detail the steps that need to be taken in the trading system and in international development finance cooperation to create the requisite external conditions for sustained and rapid growth in SSA. This year's report (UNCTAD/GDS/AFRICA/2), of which the present document is an overview, focuses on the policy content of the poverty reduction programmes. It assesses briefly the extent to which greater participation in and country ownership of programmes are secured and policy aspirations of the poor are met, followed by a review of approaches now adopted in various areas of economic policy and institutional reform. The concluding section summarizes the main findings of the report and discusses the extent to which the new approach constitutes an improvement over the former structural adjustment policies and holds out promise of a better outcome.

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OVERVIEW

1. In recent years the international community has shown increasing concern with poverty in the developing world. At the Social Summit in Copenhagen, the issue was placed at the top of the agenda and more recently the Millennium Summit set a target to halve poverty by the year 2015. While the United Nations, including UNCTAD, had for many years drawn the attention of the international community to the need to address the plight of the poorest and the least developed countries, the active advocacy role played by civil society has been a major factor in bringing the question of poverty and its linkages with the globalization process into sharper focus. Starting in 1999, poverty reduction has become the prime objective of programmes and operations of international financial institutions (IFIs) in low-income countries. This appears to mark a departure from their earlier emphasis on correcting macroeconomic imbalances and market distortions through stabilization and structural adjustment programmes. Poverty reduction strategy papers (PRSPs) are the main documents defining the strategies to be pursued and are prepared by national authorities in developing countries with broad-based participation of civil society organizations, stakeholders in enterprises and the poor. The Enhanced Structural Adjustment Facility (ESAF) of IMF has been replaced by the Poverty Reduction and Growth Facility (PRGF), and the PRSPs have become an integral component of the Heavily Indebted Poor Country (HIPC) initiative and a precondition for access to the Poverty Reduction Support Credit (PRSC) introduced by the World Bank in 2001. As a result, bilateral grants, concessionary loans and debt relief have all become inexorably linked to poverty reduction policies and strategies.

2. This new policy orientation has undoubtedly had its origin in the dissatisfaction with the progress made in resolving the deep-seated problems facing developing countries despite almost two decades of policy reforms. The World Bank estimates that by 1998 a fourth of the population of the developing world, i.e. 1.2 billion people, were living below the poverty line, namely below US$1 per day in 1993 purchasing power parity terms. Excluding China, the number has risen from 880 million in 1987 to 986 million in 1998. The corresponding figures for sub-Saharan Africa (SSA) are 217 million and 291 million, respectively, averaging around 46 per cent of the total population over the period.[1] A more recent study by the UNCTAD secretariat, using the World Bank's definition but a different methodology (bringing together household survey and national accounts data), estimates that the proportion of the population living on less than US$1 a day in the least developed countries of Africa has increased continuously since 1965B1969, rising from an average of 55.8 per cent in those years to 64.9 per cent in 1995B1999.[2]

3. Although alleviating poverty must involve economic and social policies on a number of fronts, attaining rapid and broad-based growth is at the heart of the challenge. Over the

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[1] See World Development Report 2000/2001: Attacking Poverty, World Bank, 2001, New York, Oxford University Press. The precise poverty threshold, as defined by the World Bank, is US$1.08 per day per person, derived from taking the median of the 10 lowest poverty lines among a group of poor countries.

[2] UNCTAD, *The Least Developed Countries Report 2002*, tables 19 and 20. United Nations publication, sales no. E.02.II.D.13, New York and Geneva.

past two decades, growth in income in SSA has barely kept pace with population growth. After attaining a moderate increase in per capita income during the 1970s, growth in the region remained below 2.5 per cent per annum in both the 1980s (2.1 per cent) and the 1990s (2.4 per cent). Despite a recovery after the mid-1990s, per capita income in SSA at the turn of the millennium was 10 per cent below the level reached 20 years earlier. Furthermore, the recovery has proved to be short-lived, and longer-term growth projections are well below the levels required to meet poverty alleviation targets.[3]

4. Slow and erratic growth in SSA has also been accompanied by regressive changes in income distribution. On the one hand, the poorest segments of the population have experienced steeper declines in their per capita incomes than the economy as a whole: the decline in average per capita income for the poorest 20 per cent of the SSA population is estimated to have been twice that of the population as a whole between 1980 and 1995.[4] On the other hand, in some countries there has been a process of "equalizing downwards" across much of the personal income distribution as real wages have fallen and the rural-urban gap, measured in terms of the ratio of wage earners' incomes to incomes of farmers on small holdings, has disappeared, pushing a large number of urban workers below the poverty line. As discussed in some detail in previous reports of the UNCTAD secretariat, adjustment policies, including trade and financial liberalization, privatization and retrenchment of the public sector, have played a significant role in the hollowing out of the middle class that has become a prominent feature of income distribution in many developing countries.[5]

5. While both sluggish growth and deterioration in income distribution have contributed to rising poverty in Africa, the solution cannot lie solely or even primarily in redistributional policies. That is so not only because of the well-known political and social difficulties involved in redistribution without growth, but also because it would be very difficult to make much dent in poverty through redistribution when the average level of income is so very low. Growth, by definition, is more effective in those countries where generalized poverty prevails, i.e. where the average income is very low and the majority of the population is below the poverty line.[6] It is precisely for this reason that the new policy orientation towards poverty alleviation can succeed only if it leads to rapid and sustained growth and job creation.

6. A careful examination of the principal components of this approach suggests that it builds on conventional stabilization and structural adjustment policies by adding two new elements:

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[3] See UNCTAD, *Economic Development in Africa: Performance, Prospects and Policy Issues*, tables 1 and 2 (UNCTAD/GDS/AFRICA/1). United Nations, New York and Geneva. According to IMF data, the mean annual growth rate for SSA was 4.2 per cent during 1995B1997, but declined to 3 per cent (slightly above population growth) during 1998B2001 (IMF, *World Economic Outlook. Recessions and Recoveries,* Statistical Appendix, table 5, Washington, DC, April, 2002).

[4] UNCTAD, *Economic Development in Africa: Performance, Prospects and Policy Issues*, op. cit., p. 53.

[5] UNCTAD, *Trade and Development Report, 1997*, Part Two, chaps. III and IV. United Nations publication, sales no. E.97.II.D.8, New York and Geneva.

[6] For an empirical elaboration of this argument, see Dagdeviren H, van der Hoeven R and Weeks J. Redistribution matters: Growth for poverty reduction. *ILO Employment Paper,* 2001/10. Geneva, ILO.

- While economic growth is considered essential for poverty reduction, it is also recognized that growth may not automatically trickle down to the poor. Thus, the current approach emphasizes policies that facilitate the access of the poor to human, physical and financial assets to improve their earning capacity.[7] In this respect particular attention is paid to public provision of education and health services.

- While macroeconomic stability and structural reforms continue to be considered to hold the key to sustained and rapid growth, it is also recognized that stabilization and structural adjustment policies may exert a temporary adverse impact on the poor. Thus, it is advocated that such policies should be accompanied by safety nets and targeted spending programmes to mitigate their possible adverse consequences for poverty.

7. Consequently, the current approach emphasizes improvements in the allocation of resources both over the short- and long-term to areas which can have a direct impact on the well-being of the poor. However, any such reallocation can only be sustained under conditions of rapid growth, otherwise it can give rise to serious inter-temporal trade-offs in so far as spending designed to have an immediate impact on poverty diverts scarce resources from investment and slows capital accumulation.

8. While it is generally agreed that poverty reduction strategies cannot succeed if they are not accompanied by policies to sustain rapid growth and improve income distribution, it is precisely the content and nature of those policies that are at the heart of the debate. Accordingly, it is essential that the new emphasis on poverty alleviation be founded on a careful and frank independent assessment of the effects of macroeconomic and structural adjustment policies on growth, distribution and poverty. Such an examination is all the more necessary in view of the fact that Africa has seen the most intense and recurrent application of structural adjustment programmes over the past two decades without making much progress in either poverty alleviation or development.[8]

9. The failure of structural adjustment programmes to overcome the major structural and institutional impediments to the accumulation and structural change needed to initiate rapid and sustained growth is partly due to slippages in policy implementation. However, there have also been problems in policy design. In fact, as discussed in some detail in previous UNCTAD reports, the link between adjustment and performance is weak: of the 15 countries identified as core adjusters by the World Bank in 1993, only three were subsequently classified by IMF as strong performers. Further, the rapid growth among some of the strong

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[7] World Bank, *World Development Report 2000/2001: Attacking Poverty*, op. cit., p. 34. Returns on these assets and their volatility are also referred to, but are rarely treated within the policy paradigm.

[8] Estimates by the UNCTAD secretariat for 20 LDCs, including 17 from Africa, on the impact of SAF/ESAF programmes on poverty show that, comparing the three years before and after the adoption of the programmes, the overall incidence of poverty rose by nearly one percentage point (UNCTAD, *The Least Developed Countries Report 2002*, op. cit., table 40).

performers can largely be explained by some special circumstances that were of a one-off nature and unrelated to structural adjustment policies.[9]

10. The emphasis on participation and ownership in the current approach should help improve policy design and reduce slippages in implementation. However, attention should be paid to the fact that the IFIs continue to exert a major influence on policy design through conditionality, rather than playing a primarily supportive role. Countries appear to have greater autonomy in designing social safety nets and targeted spending programmes than in formulating their own development strategies. The emphasis on ownership and participation might thus be perceived as having the objective of mobilizing greater popular and political support for the conventional adjustment and stabilization policies, rather than of giving recipient countries greater autonomy in designing their stabilization policies and development strategies. This factor underlines the recent call by HIPC Ministers for a more dramatic streamlining of conditionality and greater room for the countries to define alternative paths to poverty reduction, with more emphasis placed on growth.

11. A close examination of the macroeconomic and structural adjustment policy contents of PRSPs shows that there is no fundamental departure from the kind of policy advice espoused under what has come to be known as the "Washington Consensus". Current policy advice continues to contain all the main elements of the first generation of economic reforms, designed to "get prices right". The second generation of reforms now advocated, rather than revising and improving the economic policy framework so far pursued, adds new elements, emphasizing the importance of "getting institutions right" or simply "good governance". While there is almost universal agreement on the importance of institutions and good governance in economic, social and political development, improvements on these fronts occur only slowly. Consequently, it would be counterproductive to pursue policies independently of the existing state and proposed sequencing of institution building. Furthermore, good institutions cannot always eliminate or make up for shortcomings in economic policy or prevent market failures.

12. The current approach emphasizing poverty reduction thus appears to continue to be based on the premise that liberalization and rapid and close integration into the global economy hold the key to fast and sustained growth. Although it is recognized that growth may not automatically benefit the poor, it is not clear how policies emphasizing the primacy of the market mechanism in such areas as trade, finance and agriculture can be reconciled with the improved access of the poor to productive assets. Again, while it is recognized that stabilization and adjustment measures may have temporary adverse effects on the poor, so far little attention has been given to social impact analysis. Thus, success in sustained reduction in poverty depends, *inter alia*, on a careful reassessment of the impact of stabilization policies and structural reforms on economic growth and incomes and well-being of the poor, and on reorienting them as needed.

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[9] UNCTAD, *Trade and Development Report, 1998*, Part Two, chap. I, sect. D and table 34. United Nations publication, sales no. E.98.II.D.6, New York and Geneva.

13. Domestic policies, central as they are, are not the only factors that determine the capacity to generate resources needed for rapid accumulation and the eradication of poverty. These also depend on external constraints and support. Given their structural weaknesses, the small size of their domestic markets and dependence on imports for capacity utilization and accumulation, the extent to which poor countries can generate the required resources depends very much on how far they can translate their unexploited natural resources and surplus labour into export earnings, imports and investment. However, as amply documented in previous UNCTAD reports, such countries continue to face significant trade barriers in their more affluent trading partners, notably the industrial countries, in the two sectors which can make the greatest contribution in these respects, i.e. agriculture and labour-intensive manufactures.[10] In this respect, some recent initiatives, including the EBA (Everything but Arms) initiative of the European Union and the African Growth and Opportunity Act (AGOA) of the United States, are significant steps in the right direction. Nevertheless, continued protectionism in agriculture constitutes perhaps the most important external impediment to resource mobilization in many developing countries in Africa, where this sector could provide considerable "vent for surplus" needed to generate resources for creating jobs in industry.[11]

14. The picture is much the same for international development finance cooperation. It has long been recognized that income levels in poor countries, notably in SSA, are too low to generate the domestic resources needed for a rapid pace of growth, and that this resource gap should be filled by official financing since private capital is unlikely to be attracted to such countries except when they are endowed with rich minerals. Two years ago, the UNCTAD secretariat estimated that a net capital inflow of at least an additional US$10 billion per annum would need to be maintained for a decade or so in order to lift SSA onto a faster growth path. It was argued that a combination of a doubling of official capital inflows with policies designed to raise the efficiency of investment and the propensity to save could set off an accelerated growth path that would reduce, in a decade or so, both the resource gap of the region and its dependence on aid.[12] Subsequent estimates made by the World Bank, the Economic Commission for Africa (ECA) and others confirmed that a doubling of aid was indeed necessary to help initiate development in countries and sectors that do not attract private investment, and that cannot afford to borrow extensively from commercial sources. New pledges have since been made in the context of the United Nations Conference on Financing for Development held in Monterrey, Mexico, and more recently in the context of the G-8 Africa Action Plan. While they will go some way towards filling the external financing gaps of the poorest countries, the sums involved do not add up to the additional financing needed.

15. Removal of the debt overhang of the poorest countries through debt relief can be an important component of international financial cooperation in this regard. In SSA, the burden

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[10] UNCTAD, *Economic Development in Africa: Performance, Prospects and Policy Issues*, op. cit., sect. C.3(d).
[11] UNCTAD, *Trade and Development Report, 1998*, op. cit., Part Two, chap. II.
[12] UNCTAD, *Capital Flows and Growth in Africa*, sect. E (UNCTAD/GDS/MDPB/7). United Nations, New York and Geneva.

of official debt has constituted about 3 per cent of the combined GDP of the countries of the region in recent years, equivalent to just over 40 per cent of the additional external financing needed. Under the HIPC initiative, only a portion of this debt is eligible for relief and only for some of the indebted countries. Furthermore, despite its accelerated pace of implementation, progress under the HIPC has been slow: by mid-2002, some six years after the launching of the initiative, of the 33 African countries included in the list of 42 HIPCs, only four (Burkina Faso, Mozambique, Uganda and United Republic of Tanzania) had reached the completion point. As discussed in some detail in previous reports prepared by the United Nations, including UNCTAD, a fresh and bolder approach is needed to remove the debt overhang of the world's poorest countries. It should include both a rapid implementation of the existing initiative and a fundamental review involving an independent reassessment of debt sustainability not only for the existing HIPCs, but also for a broader spectrum of countries in need of special measures to overcome their official debt problems; it should also include a moratorium on debt-service payments, with no additional consequent interest obligations.[13]

16. To sum up, progress in international efforts to alleviate poverty will depend as much on international development cooperation in resolving the problems associated with protectionism, aid and debt as on the improvement of domestic policies, institutions and governance in developing countries. It is largely because these issues have not been properly addressed that the international community is back where it was more than two decades ago in terms of the challenges it faces in development and poverty eradication. Remarks made in 1979 on the "meagre results achieved since the first United Nations Conference on Trade and Development" by Raúl Prebisch, the first Secretary-General of UNCTAD, have a decidedly contemporary ring:

> Another idea has now appeared which fires the enthusiasm of some Northern economists, that of eradicating poverty – a phenomenon which, apparently, they have just discovered. Who could refuse to fight against poverty? ... But, is this possible outside the context of development and an enlightened international cooperation policy?
>
> Poverty, we are told, is mainly rooted in agriculture, and the productivity of that sector must be increased. Quite so. However, increased productivity produces redundancy in the labour force and the surplus labour must be employed in industry and other activities. The expansion of industry requires exports and this is one of the major external obstacles which, far from having been eliminated, is becoming worse. And the greatest of the internal obstacles is capital accumulation (both physical capital and the capital of human skills) which requires a vast effort on the part of developing countries themselves in addition to international financial cooperation.[14]

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[13] UNCTAD, *Economic Development in Africa: Performance, Prospects and Policy Issues*, op. cit., sect. C.2. See also Recent developments in the debt situation of developing countries (A/55/422), New York, United Nations, 26 September 2000 and The external debt and debt-servicing problems of developing countries, including those resulting from global financial instability (A/56/262), New York, United Nations, 2 August 2001.

[14] Prebisch R, Aspects of international economic cooperation. *Trade and Development: An UNCTAD Review*, 1, pp. 1–2, Spring 1979.

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REPORT ON UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

Prepared by the UNCTAD secretariat

Executive summary

The intensification in 2002 of the crisis in the occupied Palestinian territory and the recurrent border closures of the West Bank and Gaza have resulted in precipitous declines in national income, destruction of public and private sector infrastructure, and widespread disruption of Palestinian economy activity for much of the year. In the eighteen months since October 2000, the Palestinian economy has lost the equivalent of over half of its annual gross domestic product, unemployment has increased threefold, and poverty has risen substantially, with more than two-thirds of Palestinian households living below the poverty line. The Palestinian economy is now set on a path of "de-development", with serious ramifications for its public finances, trade balance, saving-investment gap and social services. The situation in the occupied territory is a telling example of "complex humanitarian emergencies", where vulnerability is great and the impact on the productive capacity, institutional infrastructure and the economy as a whole is severe. This economic and humanitarian crisis is once more forcing the Palestinian Authority into heavy dependence on donor support for maintaining its basic activities, while diverting attention from long-term development goals and activities.

The realities on the ground have imposed new priorities, which require promoting dynamic synergies between rehabilitation, reconstruction and strategic development needs. This framework will guide UNCTAD's technical assistance programme in the short and medium term. Despite increasing difficulties in the provision of technical assistance, UNCTAD was able to initiate a new research project in 2002, while also achieving concrete progress on five other capacity-building projects. In consultation with Palestine, the secretariat is examining possibilities of initiating targeted technical assistance in new areas: food security and commodity trade; trade logistics and facilitation; trade promotion; trade policy and preferential market access; and investment promotion.

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I. DEVELOPMENTS IN THE PALESTINIAN ECONOMY, 2001-2002

1. The crisis in Israeli-Palestinian relations since September 2000 has drained the economy of the occupied Palestinian territory of its most vital resources and rendered it increasingly weak in the face of new pressures.[1] Through losses to national income and the degradation of physical and institutional infrastructure, the economy has suffered setbacks that pose major challenges to the recovery and reconstruction programme that must follow. This is a task that acquires greater urgency in the context of realizing the vision affirmed by the United Nations, in Security Council Resolution 1397 (2002), of a region where two States, Israel and Palestine, live side by side within secure and recognized borders.

A. The economic consequences of the conflict since 2000

1. The 2002 escalation: a new crisis after 18 months of steady deterioration

2. By the most conservative estimates, the recent crisis cost the Palestinian economy $2.4 billion in gross national income (GNI) between October 2000 and March 2002. These direct losses over 18 months were equivalent to around 40 per cent of 1999 GNI and over half of 1999 gross domestic product (GDP), and they were compounded by at least $305 million in infrastructure losses. Real GNI per capita declined by 12 per cent in 2000, and by a further 19 per cent in 2001. By 2001, Palestinian GNI was estimated at $4,200 million, down from $5,500 million in 1999 (see table 1). As a result, between 40 and 50 per cent of the population is now living below an estimated poverty line of $2 per person per day.[2] In terms of deterioration of household income, it is estimated that the income of around 67 per cent of households has fallen below an estimated poverty line of $350 per household per month.[3] The income falls can be explained mainly by the recurrent internal and border closures in effect since October 2000, entailing increasingly restrictive measures on the movement of goods and persons both within and between the West Bank and the Gaza Strip and between these areas and the rest of the world. The immediate effects of those measures were the disruption of internal and external trade activities and loss of job opportunities within the occupied territory and in Israel. This raised the unemployment rate from 10 per cent in September 2000 to around 29 per cent by the end of March 2002, leaving more than 200,000 Palestinians without any work.[4]

3. The escalation of the crisis in 2002, in particular since the start of the Israeli military attack on areas under Palestinian Authority (PA) jurisdiction,[5] aggravated the widespread Palestinian economic recession, bringing the economy to the brink of collapse. Especially important are the tightened mobility restrictions since April 2002, including round-the-clock curfews, destruction of public and private property and the disruption of all facets of economic and social activity.[6] In addition to the loss of jobs in the domestic economy, the flow of Palestinian workers to Israel and its settlements in the occupied territory has declined sharply, raising the total losses in income generated by those workers since October 2000 to an estimated $757 million by the end of April 2002, equivalent to around 20 per cent of annual GNI.[7] Production activities in manufacturing, construction, commerce and public and private services have been further impaired, and external trade slowed considerably, equivalent to a contraction in the domestic output of the Palestinian economy by about 75 per cent during April 2002 alone.[8]

4. Basic utilities and physical infrastructure such as water, electricity generation facilities and grids, solid waste disposal stations, and road networks, as well as public and private institutions, were damaged during the incursions, generating an estimated $360 million in direct losses in April 2002.[9] Losses accrued to: private assets in the form of buildings, equipment and inventory (estimated at around $97 million); physical infrastructure (around $88 million, of which $64 million involved road networks); private housing ($66 million); cultural heritage ($48 million); PA assets, including Ministries and municipalities ($20 million); public and private cars ($6 million); and NGO and private social services ($56 million).

5. To maintain their continued operation in crisis conditions, Palestinian enterprises resorted to scaling down production and laying off employees, while some suspended their activities until stability could be attained. Others were forced to shut down completely, having been increasingly isolated from their target markets by the closures. This is especially the case of the once-promising tourism sector, which registered a 90 per cent decrease in commercial and service activities over the period September 2000–December 2001. The construction sector showed a similar decline in activities, owing to the suspension of infrastructure projects. Reduced private savings, shortages in raw materials and increased uncertainty also affected residential construction. The agricultural sector faced particularly substantial pressures, as the impact of closures was compounded by the bulldozing and uprooting of 17 per cent of cultivated land and almost a half a million olive and fruit trees, leading to a 70 per cent drop in the sector's output over the same period.[10]

6. Meanwhile, the trade sector's performance deteriorated further, with agriculture estimated to have lost around 30 per cent of its potential exports in 2001 and the manufacturing sector some 24 per cent.[11] At the same time, mobility and other restrictions have raised the already high transaction costs to prohibitive levels, as transport prices within the West Bank increased by around 15 per cent between September 2000 and December 2001 and continued to grow with every tightening of the closures.[12] Even prior to the crisis, transport costs associated with international trade were high, estimated at between $500 and $630 per shipment to/from Jordan and at between $600 and $630 per shipment to/from Egypt.[13] The resulting disruptions have had a drastic influence on both exports and domestic expenditure and imports: between 1999 and 2001, exports declined by an estimated 13 per cent, while imports contracted across the board by around 32 per cent.[14]

7. The closures of the territory have also caused shortages of food supplies, as farmers in rural areas were unable to market their products, lacking access to main cities and surrounding villages in the West Bank and Gaza. This has caused sharp variations in food prices between the West Bank and Gaza, where food production is concentrated. In particular, the combined effects of falling income and transport bottlenecks have depressed food prices in Gaza, while the relative scarcity of food supplies in the West Bank have exerted upward pressures on the prices of the same items. By the end of 2001, food prices in the West Bank were 10 per cent higher than those in Gaza.[15] At the same time, the economy's heavy reliance on imports for staple foods, the lack of efficient marketing channels and farmers' limited access to credit threatens further deterioration in food security.

8. In the financial sector, although the number of banks and branches operating in the territory has remained unchanged since 2000,[16] the crisis has impacted negatively on financial intermediation. The lending-to-deposit ratio declined from 41 per cent in September 2000 to around 38 per cent in September 2001, as total deposits decreased by 9 per cent from

$3,686 to $3,360 million, reflecting the decline in household income and business revenues. The value of outstanding loans registered a 16 per cent drop in view of the increased level of economic risk. Credit to the private sector declined by 3 per cent over the same period, as compared with 32 per cent growth between 1998 and 1999, indicating concern among banks over the future prospects of Palestinian enterprises. This masks an uneven distribution of credit in favour of the services sector as compared to credit to the agricultural sector, manufacturing and construction, all of which experienced declines.[17]

Table 1

Palestinian economy (West Bank and Gaza Strip) – Key indicators 1994, 1997-2001

Year	1994	1997	1998	1999	2000	2001
Generation of resources *(Millions of current US$)*						*(estimates)*
Gross domestic product (GDP)	2 625	3 882	4 157	4 622	4 213	*3 739*
Net factor income	471	512	854	879	987	*461*
Gross national income (GNI)	3 096	4 394	5 011	5 501	5 200	*4 200*
Net current transfers	559	340	372	268	n.a.	n.a.
Gross national disposable income (GNDY)	3 655	4 734	5 383	5 769	n.a.	n.a.
GDP per capita *(thousands of US$)*	1 274	1 508	1 549	1 652	1 442	*1 220*
GNI per capita *(thousands of US$)*	1 503	1 707	1 868	1 966	1 808	*1 392*
Use of resources *(percentages)*						
Consumption/GDP	127	119	*115*	*114*	n.a.	n.a.
Investment/GDP	37	37	40	39	n.a.	n.a.
National savings/GDP	*-9*	*-6*	6	5	n.a.	n.a.
Savings-Investment/GNDY	*-32*	*-35*	-26	-28	n.a.	n.a.
Trade balance/GDP	-64	-56	-55	-53	-56	*-47*
Memorandum items						
Population *(thousands)*	2 060	2 574	2 684	2 798	2 922	*3 064*
Labour force *(thousands)*	464	554	576	599	641	*672*
Employed in Israel *(thousands)*	*70*	77	119	135	95	*65*
Unemployed *(thousands)*	62	128	86	79	93	*173*
Unemployed/labour force *(percentages)*	13	23	15	13	15	*26*
Current budget balance/GDP *(percentages)*	-1.1	-1.1	1.4	1.1	-1.4	*-2*
Total aid disbursements/GNI *(percentages)*	16	12	7	9	11	*22*

Sources: Data for 1994 are from Palestinian Central Bureau of Statistics (PCBS), *National accounts*, 1994; Data for 1997-1999 from PCBS, *Statistical abstract of Palestine No. 2*, November 2001; Data for 2000-2001 are from PCBS, *Impact of the Israeli Siege on National accounts indicators*, preliminary report, April 2002, while trade indicators for the period 1999-2001 are estimates based on Vadirieso, R.A. et al. *West Bank and Gaza: Economic Performance, Prospects, and Policies*, Washington, D.C., IMF, 2001, Table 4.1, p.85, and on Economist Intelligence Unit, *Country Report: Israel and the Palestinian Territories*, April 2002. Fiscal data are based on Alnoso-Gamp, P. et al. *West Bank and Gaza: Economic Development in the Five Years Since Oslo*, Washington, D.C., IMF, 1999 and Vadirieso, R.A. et al. "*West Bank...*", while data on ODA is based on Alnoso-Gamp, P. et al. "*West Bank...*" and World Bank, *Fifteen Months - Intifada, Closures and Palestinian Crisis*, West Bank and Gaza Resident Mission, Palestine, March 2002.

2. A cycle of "de-development"

9. Direct economic losses are compounded by the profound changes that have taken place in the functioning of economy as a result of the closures, which are unlikely to be reversed easily once stability is attained. In particular, the purchasing power of the

Palestinian population has been depleted as households have adopted different coping strategies to withstand the reduced levels of income. This has entailed the rationalization of consumption, the suspension of payment for many public services, and increased recourse to savings and other assets, including selling of property. By 2002, it appears that the protracted conflict had exhausted those coping strategies, rendering dependency on emergency support in the form of food packages and financial support more common. This has led to the expansion of the informal economy, especially in the West Bank villages and to some extent in the Gaza Strip, as impoverished households have resorted to survival activities to maintain their subsistence.[18]

10. The situation prevailing in the occupied Palestinian territory is a telling example of "complex humanitarian emergencies" associated with conflicts, where coping strategies are exhausted so that vulnerability is greater and the impact on the productive capacity, institutional set-up and confidence in the economy is severe.[19] Prolonged occupation and the protracted economic crisis since 2000 have set the Palestinian economy on a path of "de-development",[20] posing threats to its short and medium-term viability, with serious ramifications for the saving-investment gap, the trade balance and public services.

11. While the private sector and most households have exhausted their savings, declining household incomes and the economy's weakened supply capacity means that domestic savings will fall in absolute terms in the coming few years. Total market capitalization is estimated to have dropped by 40 per cent between 2000 and 2001.[21] In the absence of political stability, private investment will continue to decline, while restrictions on mobility will discourage investments in activities requiring considerable amounts of capital and those with significant transport requirements.

12. It is unlikely that efforts to reactivate exports will generate positive results in the medium term, especially in view of enterprises' weakened production capacity, prohibitive transport and transaction costs, and the difficulties of getting access to finance for local enterprises seeking to resume their activities. The banking sector is becoming more stringent in offering credit to local enterprises, while private lending from abroad will be even more difficult with the loss of confidence in the Palestinian economy.

3. Impact on PA institutional capacity

13. The destruction of public infrastructure aside, the PA's administrative and planning capacity has been seriously undermined by heightened uncertainty, repeated disruption of government services and the loss of part of its institutional memory. The databases of a number of governmental departments were subjected to considerable losses, with computers, software and vital records either damaged or stolen in the key Ministries of Education, Interior and Finance. The escalating budgetary pressures are also threatening PA payrolls and operating budgets, while the tight closure prevents most staff from reaching work places.

14. The PA is awkwardly placed to confront the threat of maintaining basic services because it is already effectively bankrupt and increasingly dependent on donor aid to maintain current expenditures. The real threat to the PA's capacity to maintain basic services in both the immediate future and the medium run stems from its weakened revenue-raising capacities, the significant erosion of the economy's tax base and the diminishing income from fees on public services. Furthermore, the inability of the PA to access tax revenues collected

on its behalf by Israel meant an additional loss of $507 million by the end of February 2002.[22] PA tax, customs and excise revenues declined on a monthly basis by almost 80 per cent from $88 million in the third quarter of 2000 to $20 million in 2001. This raised the budget deficit from $19 million in September 2000 to $73 million in December 2001, with a much larger deficit expected for 2002. This has increased the pressure for austerity measures by the PA to rationalize expenditures, including cutting salaries, delaying payment of bills and borrowing from commercial banks. By the end of 2001, the PA had accumulated around $430 million in arrears, mainly to commercial banks, with the result that it can no longer resort to domestic borrowing to finance its activities.[23] This means that the PA will be fully dependent on donor support for maintaining its activities at least over the current fiscal year. To the extent that the donor community shifts to loan-based aid, this would increase debt obligations and could further strain the PA's ability to maintain social services. Already, PA public debt has risen from $600 million in 1999, equivalent to 13 per cent of GDP, to $1.2 billion by mid-2002[24], equivalent to around 34 per cent of projected GDP,[25] a proportion which is likely to register further increases in coming years in view of declining GDP and new public debt obligations.

4. Impact on official development assistance

15. Over the period 1994-June 2000, the Palestinian economy received foreign aid amounting to $3 billion, equivalent to around 14 per cent of GNI per annum and $175 per capita.[26] Indeed, donor disbursements over the period 1994-1998 of $2.3 billion exceeded the $2.2 billion pledged for that period at the first donor conference held in 1993. Almost 82 per cent of aid was provided in the form of grants, with the members of the European Union together providing 42 per cent of total aid and the United States of America standing as the largest single donor, with 15 per cent of total aid.[27] The allocation of these funds reflects a gradual shift towards funding development projects in physical infrastructure, health and education, while budgetary support dropped from 31 per cent of total aid in 1994-1995 to 4 per cent in 1999, only to rise again sharply since.[28]

16. Since 2000, increasing damage has been inflicted upon donor-funded infrastructure projects, an example being the destruction of facilities at Gaza International Airport and the Gaza Seaport project.[29] Meanwhile, the humanitarian crisis is diverting donors' attention again to budgetary support and emergency assistance, which absorbed around 80 per cent of disbursements over the period September 2000-December 2001. This crisis has also been accompanied by an increase in foreign aid. Total disbursements rose by 93 per cent in 2001 and commitments by 77 per cent compared with 1999, bringing total disbursement to $929 million by the end of 2001 and commitments to $1,228 billion. These funds were mainly grant-based, with the League of Arab States and the European Union providing 47 per cent and 26 per cent of total aid respectively and the United States of America providing 20 per cent.[30]

B. Development challenges facing public policy in trade, finance and development

1. Challenges to the PA's capacity to manage the economy

17. Despite the relatively limited economic policy options accorded by Israeli-Palestinian accords since 1994 and the lack of political stability, the PA succeeded in establishing a functioning government with a national mandate that was able to create much of the needed

institutional and regulatory framework for improving living conditions and for stimulating economic growth in the Palestinian territory. Indeed, available statistics for the period 1994-1999 show an upward trend in key social and economic indicators. Most notable are the following: the 76 per cent increase in GDP over the period despite continued volatility; the improvement in per capita GDP from $1,274 in 1994 to $1,652 in 1999; the reduction in the proportion of the population living under an estimated poverty line of $2 per person per day from 27 per cent in 1996 to 23 per cent in 1998; continued increases in net enrolment ratios in primary and secondary education; and significant improvements in health, public utility and other human and social development indicators.[31]

18. In themselves, these achievements lent credibility to the role of the PA and provided grounds for confidence in its readiness and potential to assume national government functions. Even prior to the crisis, the PA had shown a commitment to strengthening and improving the performance of public institutions. The PA established an inter-Ministerial committee in 1999 to develop public institutions, and in 2000 it introduced a range of improvements in public finance management under the "Economic Policy Framework" (EPF), developed in collaboration with the International Monetary Fund. The EPF committed the PA to consolidation of all public revenues under one account, the modernization of tax collection and customs procedures to adhere to international standards, and divesting PA assets in private enterprises, estimated at $345 million by 2000. These efforts were supported by measures to promote private sector-led development, including an open dialogue with the private sector on economic policy-making and reform of the legal framework.[32]

19. Nonetheless, the PA's performance record shows that there remains room for improvement,[33] especially since recent developments have strained the PA's capacity to govern even further and exposed weaknesses to greater public scrutiny. At the planning level, the PA has yet to address the need for elaborating clear development vision and strategy, other than a general commitment to trade and financial liberalization and the creation of an enabling environment for private-sector, export-led development. Though some of these policy orientations are reflected in special legal or regulatory arrangements, they have yet to be embodied in operational development policies, since objectives are stated in generic terms and are not well connected with particular programmes, projects or short-range policy measures.

20. At the implementation level, the impact of the development programmes is undermined by differential competence levels within and between Ministries, weak executive capacity in translating priorities and goals into coherent action, and weaknesses in the budgetary process, especially with regard to the consolidation of fiscal accounts, causing fiscal leakage and delays in service delivery.[34] The high population growth rate of 5.1 per cent annually will generate a continually high demand for public services in the future, which has to be factored into the planning of civil service restructuring of the PA. For the moment there has been a freeze in PA employees and a 4 per cent cut in the nominal wage bill.[35]

21. Considering the magnitude of the challenges ahead, the key to enabling the PA to promote sustained recovery is the restoration of its capacity to manage the economy and to maintain basic social and public services. The ability of PA institutions to operate without Israeli intervention in areas under PA jurisdiction is a prerequisite for mounting any sustained development effort. The PA has already embarked on a financial and administrative restructuring of public institutions that goes beyond the downsizing of the civil service. In June 2002, the new PA Cabinet presented an integrated, 100-day programme for government

action, suggesting appropriate reform measures, including streamlining of the civil service payroll and guidelines for modernizing Ministries.[36] The recent crisis also prompted the PA Ministerial changes of June 2002, which entailed merging the Ministry of Economy and Trade with that of Industry, as well as the appointment of new Ministers of Education, the Interior, Finance, Justice, Labour, and Natural Resources and Tourism. Meanwhile, the PA is working on a comprehensive privatization plan, while the recent adoption of the Judiciary Law and the planned finalization of other measures, such as the Industrial Estates Law and Competition Law, will help to improve the regulatory environment.

2. A legacy of uneven economic performance

22. Regardless of how capable, streamlined and transparent the PA proves to be in the area of economic policy-making and management, it faces an economy beset by deep-seated structural weaknesses and imbalances. It should be recalled, however, that these weaknesses arise from the legacy of 35 years of occupation and distorted economic relations with Israel and isolation from regional and global markets, much more than from the experience of the limited, and by design provisional, interim period of self-government arrangements.

23. Previous reports by the UNCTAD secretariat have demonstrated that the Palestinian economy's growth during the period 1994-1999, as measured by increases in GDP and GNI per capita, masked an insecure base for sustained economic development. External resources continued to provide the driving factors of growth, and the economy showed heavy import dependence in obtaining raw materials and essential commodities, with Israel standing as the main source and sole route of supplies. The effect of this has been a marked saving-investment gap, a widening in the trade deficit and an increase of its ratio to GDP. The latter reflects weakening export capacity, unrestrained import growth (until 2002), and almost total dependence on foreign aid for financing development projects.[37] This has occurred despite the diversification of sources of income as the structure of the economy underwent substantial change. Agriculture's share of GDP dropped from an annual average of 17 per cent in 1991-1993 to 7 per cent by 2000, while that of services and industry grew from 45 per cent and 9 per cent to 54 per cent and 16 per cent respectively.[38]

24. The uneven performance of the Palestinian economy in recent years may be attributed above all to the lack of political stability and the persistent delays and shortcomings in the implementation of signed agreements, especially the 1994 "Paris Protocol on Economic Relations" between Israel and Palestine. This has prolonged an interim period (1994-1999) that was conceived as a temporary measure to permit a smooth transition to permanent economic arrangements. This de facto prolongation has increased the degree of uncertainty with regard to future arrangements governing the economy. The recurrent border closures constitute a major factor that has continuously eroded the impact of development efforts by paralysing economic activities over extended periods and increasing the economy's vulnerability to external shocks. The indefinite delay in the opening of the Palestinian seaport in Gaza and the tight restrictions governing operations of the Gaza International Airport have resulted in heavy dependence on Israeli facilities for participation in international trade.[39]

25. The adverse economic environment poses high risks for both public and private investment. These are increased by the unpredictability of production and trade under closure, as well as the high transaction costs generated by the complex procedures governing the

transport of Palestinian trade across the main borders with Jordan, Egypt and Israel. Furthermore, the PA's restricted jurisdiction over land and water has reduced the availability of natural resources needed for productive development.

26. The result has been an aggravation of structural weaknesses in the economy, as reflected for example in: (i) the stagnant level of private investment and its concentration in construction activities; (ii) the continued dominance of micro-enterprises with fewer than five employees, which account for 90 per cent of total establishments; (iii) the range of problems affecting small and medium-size enterprises (SMEs), including a paucity of managerial skills and of the experience needed to participate in trade; (iv) the composition of exports, whereby labour-intensive manufactured goods accounted for 42 per cent of merchandise exports in 1998; (v) the inability of the domestic economy to absorb more than 60 per cent of new entrants to the labour force;[40] and (vi) a fledgling financial system, with a thin capital market, a banking sector that is mainly engaged in short-term lending, and limited insurance services.[41]

27. Accordingly, there is a twin challenge for Palestinian development efforts: both recovery and reconstruction in the post-conflict situation need to be pursued against a background of prolonged disappointing economic performance.

3. A deficient trade regime and constrained market access conditions

28. The Palestinian trade regime, as defined under the terms of the Paris Protocol, has provided an inadequate basis for efficient Palestinian economic growth, entailing policies that are more responsive to the commercial interests of the much larger and stronger Israeli economy.[42] In addition to maintaining the range of subsidies, indirect taxes on certain imports and non-tariff barriers applied by Israel to protect its industries, without enabling the PA to exercise similar policies, the Protocol adopts Israeli regulations for imports from most third parties. Except for a limited group of products within specific quantities imported from Egypt and Jordan to which the PA can apply its own lower rates, Palestinian imports must be subjected to a floor of Israeli rates. This has rendered trade policies effectively identical to those of Israel, making it impossible for the PA to revise the level of taxes upwards (or downwards, except in cases just mentioned).

29. Accordingly, under the present trade regime, the PA must attempt to stimulate industrial development in a context of trade liberalization, which limits its policy space. In effect, the Palestinian economy, by virtue of its association with the Israeli trade regime, has to bear all the costs of trade liberalization inherent in World Trade Organization (WTO) membership, while having access to few of the benefits of liberalization and WTO accession. Notwithstanding the aforementioned shortcomings, the Protocol was intended to provide the Palestinians with opportunities to reap some benefits in the form of expanded trade and employment in Israel, as it was predicated on the free movement of goods and persons between the two territories. However, border closures in 1996-1997 and since 2000 have undermined such opportunities, and by so doing, have effectively set the limits for the Palestinian economy's development possibilities.

30. Furthermore, Palestinian preferential or free trade agreements with regional and international partners (e.g. Canada, Egypt, European Union, Jordan, United States of

America) remain largely unexploited, mainly owing to market access conditions that are not consistent with the economy's development needs. At the policy level, Palestinian exports are subjected to a variety of conditions (quotas, seasons and tariffs), even when granted preferential access. At the operational level, the lack of PA control over borders puts Palestinian trade at a disadvantage, as prohibitive transport and administrative costs inflate the prices of both the imports and exports transported through Jordan and Egypt.

31. For the immediate future and until permanent economic arrangements are reached between Israel and Palestine, the Paris Protocol will continue to limit the PA's scope for policy autonomy. However, the experience of the existing trade regime highlights the need for careful examination of the PA's future bilateral, regional and multilateral trade policy options in the context of a national strategic development vision, firmly rooted in Palestinian economic realities and interests.

4. The absence of a national currency

32. The absence of a national currency leaves the PA without the possibility of resorting to monetary and exchange rate policies to offset macro-economic disequilibria, and this is unlikely to change in the near future. Recovery efforts will have to proceed under the current arrangement, which relies upon three convertible currencies, the Israeli shekel, the Jordanian dinar and the United States dollar. Previous studies have indicated that this arrangement has contributed to the banking system's reluctance to extend long-term loans owing to risks due to the difficulty of matching the currency denomination of its assets and liabilities.[43] A national currency should thus be a central component in the design of a future Palestinian national economic policy.[44]

5. Tightened mobility restrictions, humanitarian crisis and poverty

33. The development-policy challenges to the PA would be complex enough even without intensified Israeli restrictions within the occupied territory. These include the establishment of "buffer zones" around the West Bank cities to separate them from Israel, thus entailing new restrictions on the movement of goods with/through Israel, as well as between cities in the West Bank and Gaza. According to arrangements announced in mid-2002, merchandise imports and exports will be authorized to pass only at certain border checkpoints and will have to be downloaded from incoming trucks and then reloaded into local trucks before proceeding to their final destination.[45] The Israeli authorities are also introducing a tighter system of permits for controlling the movement of Palestinians within the West Bank and Gaza and to Israel. Recurrent border closures and Israeli security preoccupations have led to the replacement of Palestinians by foreign workers, making it difficult to envisage restoration of the pre-conflict level of Palestinian labour flows to Israel.

34. The expansion and institutionalization of Israeli restrictions will certainly worsen the humanitarian crisis, since the economy's coping strategies have been overwhelmed by poverty. This renders attempts to address development needs particularly difficult, *inter alia* because emergency needs will still be evident even after the attainment of stability. The experiences of other war-torn economies show that food aid can distort prices and act as a

disincentive to domestic food producers.[46] Aid is nevertheless an indispensable component of the policy response to the current humanitarian crisis. In the longer term, the best way to reduce aid dependency will be to provide external resources at the level required to rebuild the economy's infrastructure and enable it to achieve self-sustained growth.[47]

6. Linking relief and development

35. While the level of aid is critical for supporting the reconstruction process, the quality of aid is equally important. At the policy level, the present approach to aid coordination is not directly linked to PA budget and development priorities. The Palestinian Development Plan (PDP), which until 2000 provided a framework for allocating foreign aid, focuses mainly on public expenditure, entailing a list of development projects with little indication of their implications for the public budget. However, the Plan has been overtaken by the imperatives of the recent crisis and its usefulness in the new circumstances is less evident. At the implementation level, there is a need to enhance coordination both among donors and within the PA, especially in the area of private sector development. Experience shows that the lack of coordination and consolidation among donor programmes has overburdened the PA with administrative work and undermined the impact of private sector development efforts.[48]

36. While the emergency humanitarian needs of poverty-stricken households will call for increased attention over the coming months, the depletion of the economy's coping strategies threatens long-term dependencies and increases vulnerability. Hence, there is a need for renewed development efforts to strengthen the economy's resilience, both at the household and industry levels. A top development policy priority following the immediate relief effort should be to moderate the impact of the economic effects of the conflict, especially through halting the declines in output and employment and creating the necessary conditions for jump-starting recovery. This requires promoting dynamic synergies between rehabilitation, reconstruction and strategic development needs.

37. In particular, rehabilitation efforts should aim at strengthening the economy's capacity to withstand the crisis, especially through emergency job creation programmes, while reconstruction efforts should dovetail with strategic development policies, *inter alia* targeting the root causes of economic vulnerability and offsetting the mechanisms through which their adverse effects occur.[49] In view of the economic impact of the conflict on exports and trade-related activities, special efforts should be made to restore export capacity, to re-establish financial and trade links with traditional markets, to develop new product lines, and to help industries penetrate new export markets.

38. The rebuilding of the PA's institutional capacity should include the revitalization of its tax collection capacity and rehabilitation of basic utilities and services. These efforts should be supported by active labour market policies to offset soaring unemployment rates, and renewed efforts to improve the deteriorating food security conditions that go beyond emergency food assistance. Programmes should also seek to assist troubled businesses, especially small and medium-sized enterprises, to resume their activities, with special attention paid to finding new markets and to ensuring access to credit. In the medium term, there should be efforts to re-orient Palestinian trade towards more balanced relations with Israel, especially by integrating the economy with regional and global markets. These efforts should include exploring alternative maritime transport arrangements in order to reduce Palestinian enterprises' heavy reliance on Israeli port facilities.

39. The new realities created by the protracted conflict have rendered previous development policies less responsive to the economy's needs. Of special importance here is the need to carefully reconsider the pace of, and policies related to, economic and trade liberalization. This stems not only from the private sector's weakened capacity to respond to market incentives but also from the deteriorating terms of trade of labour-intensive products, which raises the question of how best the Palestinian economy's industrial base should be modernized through a restructuring that emphasizes more technology-intensive products with higher value added.[50]

40. Such a "dynamic industrial policy" may necessitate resort to temporary measures of protection. These measures should be based on a thorough assessment of the different sectors' export potentials and development needs in order to allow for selectivity as far as possible. The protection should "aim at the support of certain industries at each point in time while reducing or eliminating support to others"[51] and its effects should be enhanced by policies at the sectoral level to attract foreign participation, where this is appropriate, and to improve the industries' technological capability.

II. UNCTAD'S TECHNICAL ASSISTANCE TO THE PALESTINIAN PEOPLE

A. Framework, objectives and operational activities under way

41. Designed to strengthen institutional capacity and support development efforts, UNCTAD's technical assistance to the Palestinian people has evolved since 1995 into a multifaceted and integrated programme of technical cooperation with the PA. Between 1995 and 2001, in close consultation with Palestine, UNCTAD provided technical assistance to the Palestinian people through 20 research-based technical assistance projects, drawing on the experience of the secretariat as a whole. With a view to bolstering Palestinian institutional development, and helping to create an enabling environment for private sector growth, UNCTAD technical assistance is guided by a set of interrelated strategies that are designed to achieve specific national development objectives identified by the PA within four programme clusters:

- Trade policies and strategies;
- Trade facilitation and logistics;
- Finance and development; and,
- Enterprise, investment and competition policy.

42. However, the protracted conflict since October 2000 has interrupted the Palestinian development process and rendered the provision of technical assistance increasingly difficult, especially in view of the deteriorating field conditions, tightened mobility restrictions, and restrictions on the access of UNCTAD experts. This has resulted in the suspension of training activities planned under the *Training programme in international commercial diplomacy - Phase II* and the postponement of the commencement of proposed advisory services and training activities under four projects: *Bilateral and regional trade arrangements; International procurement of strategic food commodities; Institutional capacities for Gaza Seaport; and Strengthening capacities of the domestic insurance sector.* Nonetheless, by deploying streamlined and selective operational activities, especially advisory and consultancy services, group training and technical support, UNCTAD was able to initiate a new project in 2002 and achieve concrete progress in five others already commenced.

43. Since 2000, UNCTAD's technical assistance to the Palestinian people has benefited from extrabudgetary support from the Governments of Italy, the Netherlands, Norway and the United Kingdom, as well as from the United Nations Development Programme (UNDP) and the World Bank. In designing and implementing its technical assistance, the secretariat has maintained contacts with relevant international organizations, especially UNDP, the United Nations Industrial Development Organisation, the UNCTAD/WTO International Trade Centre (ITC), the United Nations Special Coordinator for the Occupied Territories, the United Nations Relief and Works Agency for Palestine Refugees and the World Bank, as well as Palestinian and international research centres and civil society institutions.

1. Trade policy and strategy

44. UNCTAD's activities in this area entered a new phase in early 2002 with the initiation of a new project that aims at assisting the PA in developing and regulating the services sector,

while building capacity to conduct future bilateral and multilateral negotiations on trade in services. Following an advisory mission in mid-2001, project activities requested by the PA Ministry of Economy, Trade and Industry (MoETI) included the preparation of a national study on the services sector with a view to providing the PA with a policy framework for designing and implementing a "Master Plan for Developing Trade in Services" (MPDTS). The results of the study will be presented to relevant private and public institutions at a national forum within the context of the PA's National Trade Dialogue Project (NTDP) by the end of 2002. Follow-up activities still to be costed include assistance to MoETI in elaborating the MPDTS and preparing an action plan for its implementation.

45. Progress in this cluster was made under the issue of *Transit trade and transport for the PA*, with the preparation of two technical studies entitled "Transit Transport for Palestine" and "Regional Maritime Transportation Alternatives", which were presented to the PA in early 2002. MoETI is currently seeking funding for further advisory services in this area. While the UNCTAD secretariat will assist the PA in drafting transit transport framework agreements with its immediate neighbours, a detailed package of advisory and training activities would also be required, in coordination with relevant PA and private institutions.

2. Trade facilitation and logistics

46. The secretariat was able to continue advisory and training activities under the *Trade Point Palestine Ramallah (TPPR)* project that is being implemented in close cooperation with MoETI and the Palestinian Trade Centre (Paltrade), the private-sector host organization. Following a request by the PA, a TPPR Business Plan 2002-2004 was prepared by the secretariat and submitted in early 2002 in order to help TPPR further expand its customer base and sources of income, in addition to exploring new import and export market opportunities. Paltrade is currently preparing to implement the plan in close cooperation with UNCTAD. Fresh funding is sought for follow-up activities, including training and the extension of the operation of the Trade Point to cover Gaza.

47. Meanwhile, steady progress was achieved in the *Preparations for ASYCUDA - Phase I* project, which commenced in mid-2001 and is being implemented by the General Directorate for Customs and Excise of the PA and funded through the Palestinian Economic Council for Reconstruction and Development (PECDAR). Owing to the field difficulties affecting the organization of training activities and advisory services and damage to the ASYCUDA project office in Ramallah, the project completion date has been delayed. However, flexible modalities for technical and functional training, as well as the building of the system, were identified to enable the ASYCUDA++ prototype to be installed in the Customs Headquarters in Ramallah by September 2002. Meanwhile, the PA is seeking funds for Phase II of the project, which focuses on the provision of further training for the national team and the installation of the prototype system at three pilot sites.

3. Finance and development

48. In close cooperation with the PA Ministry of Finance (MoF), UNCTAD has taken the necessary measures to maintain its advisory and training services under the project

Strengthening capacities in debt monitoring and financial analysis (DMFAS). This included the dispatch to Gaza of two DMFAS experts to install the system, begin building the database and train MoF staff in its use. In addition, the secretariat is preparing to undertake a comprehensive study on debt strategies and policies that will provide the PA with a policy framework for guiding efforts in the areas of debt management and loan negotiations. Meanwhile, the secretariat is updating and further developing its Macroeconomic Simulation Framework of the Palestinian economy, for use by the secretariat and eventual installation in PA economic planning and policy research institutions.

4. Investment, enterprise development and competition

49. Following a brief suspension in 2001, technical assistance under this programme entered a new phase with the resumption of project activities under *Support for small and medium enterprise (SME) development (Empretec)* within the context of the MED2000 Programme. This entailed the establishment of a training and support capacity centre within the host organization, the Palestinian Banking Corporation, which assumed the responsibility for operating the project and integrating it into the regional and international Empretec network. Furthermore, a Management Advisory Committee was created to coordinate the project's activities with other ongoing donor-funded programmes targeting Palestinian SMEs and to ensure the project's sustainability beyond the initial funding cycle.

50. Meanwhile, the secretariat is in the process of preparing a comprehensive study on the Palestinian SME sector, including a statistical survey of the sector's salient features and needs, to be implemented in close cooperation with the Palestinian Central Bureau of Statistics (PCBS). The results of the study will be used for: (i) assisting Empretec staff in defining the Palestinian entrepreneurial profile and adapting follow-up services to the local business environment and the SME sector's needs; and (ii) assisting the PA in designing the needed policies for developing this sector and enhancing its contribution to economic growth.

B. UNCTAD's response to the Palestinian economic crisis

51. As mentioned in chapter I, the widespread humanitarian crisis raises the need to create dynamic synergies between the processes of rehabilitation, reconstruction and long-term development planning. Since UNCTAD technical assistance is mainly geared to addressing medium- and long-term institutional and other development needs, creating such synergies requires modifying certain ongoing projects to address acute economic needs as well as taking account of such needs in the design of projects in new areas which target medium- and long-term development. Guided by the findings of an UNCTAD assessment mission in May 2002, the secretariat is examining in close cooperation with the PA the possibilities of initiating targeted technical assistance in the areas indicated below.

1. Food security and commodity trade

52. Subject to resources availabilities, UNCTAD is ready to assist the PA in the design of: (i) financing mechanisms for farmers who are not involved in export activities; (ii)

export/import finance facilities; (iii) warehouse and related trade facilities; and (iv) training activities in international procurement and trade of strategic food commodities.

2. Trade logistics and facilitation

53. In the light of the findings of an UNCTAD study on alternatives for the PA in regional maritime transportation, the secretariat could further examine options for routing Palestinian trade through neighbouring seaports in the region, as well as the feasibility of establishing a temporary maritime landing facility in Gaza. At the same time, UNCTAD can advise the PA on installing an automated system for security clearance of goods at the borders with Egypt and Jordan so as to reduce clearing time and damage caused by security control operations.

3. Trade promotion

54. UNCTAD will continue to assist Paltrade/TPPR in preparing and disseminating information on export opportunities, especially at the regional level. This includes linking Palestinian enterprises with regional export promotion agencies that are ready to assist Palestinian exporters in regional and global markets. Moreover, in collaboration with ITC, UNCTAD can assist the PA in developing appropriate strategies for improving supply-chain management.

4. Trade policy: preferential market access

55. UNCTAD could assist the PA in developing an agenda for obtaining the special and differential treatment accorded to the least developed countries. The need to extend such treatment to the occupied Palestinian territory was recognized by the General Assembly as early as 1988 in resolution 43/178, while the economy's development continues to meet structural impediments to growth, many of which are common with LDCs. Meanwhile, as Palestine considers the possible benefits of observer status at the WTO, the UNCTAD secretariat's previous advisory services to the PA in the area of trade policy can serve as a useful basis for further technical assistance that it may require.

5. Investment promotion

56. The Palestinian Investment Promotion Agency (PIPA) is developing new approaches to respond to the private sector's emergency needs and has requested UNCTAD's assistance in revising the PIPA business plan and in developing some of the agency's core programmes. UNCTAD has also expressed its readiness to assist PIPA in developing a consistent framework for stimulating domestic investment and attracting foreign direct investment.

Notes

[1] In accordance with the relevant General Assembly resolutions and decisions, references in this report to the occupied Palestinian territory pertain to the Gaza Strip and West Bank, including east Jerusalem (for purposes of brevity, the term "Palestinian territory" is also used as appropriate); the term "Palestine" used in this report refers to the Palestine Liberation Organization, which established the Palestinian Authority (PA) following the 1993-1994 accords with Israel. Unless otherwise mentioned, data on the Palestinian economy in this report apply to the Gaza Strip and West Bank, excluding east Jerusalem.

[2] World Bank, "Fifteen Months - Intifada, Closures and Palestinian Crisis", West Bank and Gaza Resident Mission, Palestine, March 2002.

[3] Palestinian Central Bureau of Statistics (PCBS), "Impact of the Israeli Measures on the Economic Conditions of Palestinian Households on the Eve of Israeli Incursion", 4th round, January-February 2002, Palestine, April 2002.

[4] According to PCBS, "Labour Force Survey", first round, January-March 2002, Palestine, the number of Palestinian workers in Israel ranged between 125,000 and 130,000 workers on the eve of the conflict. This number has since declined by over 50 per cent, as only 50,000 workers now work in Israel, according to the World Bank, "Fifteen Months…".

[5] See Security Council resolution 1402 (2002) of 30 March 2002 and General Assembly resolution ES 10/10 of 7 May 2002.

[6] Since March 2002, Gaza has been divided into three areas, while the West Bank cities have been separated by permanent checkpoints.

[7] PCBS, "Impact of the Israeli Siege on National Accounts Indicators", preliminary report, Palestine, April 2002

[8] PCBS, "Impact of the Israeli Siege...".

[9] The Local Aid Coordination Committee (LACC), press release, Jerusalem, 15 May 2002.

[10] The Palestinian Economic Council for Development and Reconstruction (PECDAR), "People Under Siege: Palestinian Economic Losses, September 2000-September 2001", Palestine, September 2001. By the end of February 2002, the Israeli forces had destroyed 31,283 hectares of agricultural land and 485,665 trees, leaving 5,243 farmers without any source of income. PA Ministry of Agriculture, "Report on Palestinian agriculture losses due to recent Israeli actions: September 2000- February 2002", Palestine.

[11] World Bank, "Fifteen Months…".

[12] PCBS, "Monthly Consumer Price Index", Quarterly Reports, different issues, Palestine, 2000-2001.

[13] UNCTAD, "Cooperation between the Palestinian Authority, Egypt and Jordan to entrance subregional trade-related services", UNCTAD/GDS/SEU/3, Geneva, 14 February 2000. For further discussions on transport arrangements and their impact on transaction costs, see R.A. Vadirieso, et al. *West Bank and Gaza: Economic Performance, Prospects, and Policies*, Washington, D.C., IMF

[14] The figure for Palestinian trade deficit in 2001 is based on estimates in R.A. Vadirieso, et al. "West Bank and Gaza…", table 4.1, p.85, and Economist Intelligence Unit, "Country Report: Israel and the Palestinian Territories", April 2002.

[15] PCBS, "Monthly Consumer Price Index".

[16] This includes 22 banks and 115 branches.

[17] Palestinian Monetary Authority (PMA), Statistical Bulletin, No. 40-42, Palestine, 2001.

[18] UNSCO, "Paying a Price: Coping with Closure in Jericho, Gaza City and in Two Palestinian Villages", Gaza, January 2002.

[19] See Fitzerald, S., *War and Underdevelopment*, Oxford, Queen Elizabeth House, 2001, Chapters 1 and 9.

[20] Sara Roy first used this term to analyse the economic performance of the Gaza strip in "The Gaza Strip: The Political Economy of De-Development", Washington, D.C., Institute for Palestine Studies (IPS), 1995.

[21] Center for Private Sector Development (CPSD), "The state of the private sector", Palestine, 2001.

[22] These taxes include import taxes collected by the Israeli authorities on behalf of the PA under the clearance system.

[23] Total budget commitments from donors amounted to $589 million by the end of 2001. World Bank, "Fifteen Months....

[24] MAS, *MAS Economic Monitor*, No. 6, April 2000; Al-Ayyam, "Interview with PA Finance Minister Salam Fayyad", Ramallah, 6 July 2002 (in Arabic).

[25] According to PCBS, GDP is expected to decline by 4 per cent by the end of 2002 as compared to the previous year, to stand at $3,574 billion. PCBS, "Impact of Israeli..."

[26] PA Ministry of Planning and International Cooperation (MOPIC), "Quarterly Matrix on Foreign Aid", different issues, Palestine.

[27] Ibid.

[28] World Bank, "Aid Effectiveness in the West Bank and Gaza", West Bank and Gaza Resident Mission, Palestine, June 2000.

[29] These projects are funded by the EU, which has accrued US$ 14.7 million in losses as a result of the destruction of its project facilities. World Bank, "Fifteen Months ....

[30] Ibid.

[31] PCBS, General Education Indicative 1994/1995-1998/1999, Palestine, 2001.

[32] In 1999, the PA launched the "National Economic Dialogue" on such issues as identifying the development interests of the private sector and the needed policies for enhancing the role of the private sector in economic development. The PA has also developed a strategic framework for guiding legal reform, "Rule of Law Strategic Development Plan". By mid-2000, the PA had enforced 40 laws with a direct bearing on the economic on business spheres. See UNSCO, Rule of Law Development in the West Bank and Gaza Strip: Survey and State of the Development Effort, Gaza, May 1999.

[33] See UNCTAD. "The Palestinian economy: achievements of the interim period and tasks, for the future". UNCTAD/GDS/APPU/1, Geneva, 19 January 2001; and, World Bank, "West Bank and Gaza: Strengthening Public Sector Management", West Bank and Gaza Resident Mission, 1999.

[34] The PA may share the attributes of a "soft state" in that it lacks the institutional capacity to push through its development agenda. See Myrdal, G., *Asian Drama: An Enquiry into the Poverty of Nations*, New York, Pantheon Books, 1968, chapters 2, 19 and Appendix 4.

[35] R.A. Vadirieso et al., "West Bank and Gaza...", p.22

[36] The underpinnings of the PA reforms are outlined in the "Reform Charter" that was presented by the Palestinian Legislative Council (PLC) to the President in mid-May 2002 following the approval of the Basic Law (constitution) and the judicial legislation. *Jerusalem Times*, May 2002, Jordan.

[37] UNCTAD. "The Palestinian economy...".

[38] Comparisons between sectoral shares of agriculture and other sectors for the pre- and post-1994 periods should be made with caution owing to different statistical methodologies and measurement criteria applied by the Israeli Central Bureau of Statistics and PCBS, respectively.

[39] Under the terms of existing accords, Gaza International Airport is not allowed to operate cargo flights.

[40] Basim Makhool, "Economic growth and employment in the West Bank and Gaza Strip", *Arab Economic Journal*, 27:11, Spring 2002.

[41] See UNSCO, "Report on the Palestinian Economy", Gaza, Spring 2001; and, Palestinian Securities Exchange (PSE), "Market Activity Report: Fourth Quarter ", 2000 at http://www.p-s-c.com.

[42] This has been fully covered in previous UNCTAD studies, in particular UNCTAD. "The Palestinian economy and prospects for regional cooperation". UNCTAD/GDS/SEU/2, Geneva, 30 June 1998; GDS/SEU/3 and GDS/APP/1.

[43] UNCTAD. "The Palestinian economy...".

[44] For detailed discussions on the currency issue and future Palestinian monetary arrangements, see: UNCTAD. "Prospects for sustained development of the Palestinian economy: strategy and policies for reconstruction and development". UNCTAD/ECDC/SEU/12, Geneva, 21 August 1996; "Cooperation..."; and, "The Palestinian economy....".

[45] This highly inefficient and costly "back-to-back" system, in operation at a number of crossing points for many years, is widely regarded as a major impediment to trade capitalization. UNCTAD. "Cooperation...

[46] See Hoddinott, J., "The shift from development to emergency assistance and its impact on poverty and nutrition: a conceptual framework", Washington, D.C., International Food Policy Research Institute, 1999.

[47] UNCTAD's Macroeconomic Simulation Framework (MSF) of the Palestinian economy estimates that such a path can be attained with a significant infusion of external transfers, in the form of investment and aid. Over an 11- years projection period, this reconstruction and reform program would call for a total of around $16 billion in net transfers or an average of $1.4 billion per annum. This is equal to some $10 billion over and above current flows of external aid and investment.

[48] World Bank, "Aid Effectiveness ...".

[49] See Buchanan-Smith and Maxwell, "Linking relief and development: an introduction and overview", *Institute of Development Studies Bulletin* (IDS), Vol. 25; Bruck, T., Fitzerald, S., and Grisby, A., "Enhancing the private sector contribution to post-war recover in poor countries", Working Paper no. 45(1), Oxford: Queen Elizabeth House, 2000.

[50] For a thorough analysis of market dynamism and the evolution of world trade over the last two decades, see UNCTAD, *Trade and Development Report, 2002,* United Nations publication, New York and Geneva, chapter 3.

[51] Shafaeddin, M., (2000), "Free Trade or Fair Trade? An enquiry into the Cause of Failure in Recent Trade Negotiations", UNCTAD Discussion Paper, No. 153, Geneva, December, p.20.

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REPORT ON UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

Prepared by the UNCTAD secretariat

Corrigendum

Replace page 1 of document TD/B/49/9 by the attached text.

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REPORT ON UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

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Executive summary

The intensification in 2002 of the crisis in the occupied Palestinian territory and the recurrent border closures of the West Bank and Gaza have resulted in precipitous declines in national income, destruction of public and private sector infrastructure, and widespread disruption of Palestinian economy activity for much of the year. In the eighteen months since October 2000, the Palestinian economy has lost the equivalent of over half of its annual gross domestic product, unemployment has increased threefold, and poverty has risen substantially, with more than two-thirds of Palestinian households living below the poverty line. The Palestinian economy is now set on a path of "de-development", with serious ramifications for its public finances, trade balance, saving-investment gap and social services. The situation in the occupied territory is a telling example of "complex humanitarian emergencies", where vulnerability is great and the impact on the productive capacity, institutional infrastructure and the economy as a whole is severe. This economic and humanitarian crisis is once more forcing the Palestinian Authority into heavy dependence on donor support for maintaining its basic activities, while diverting attention from long-term development goals and activities.

The realities on the ground have imposed new priorities, which require promoting dynamic synergies between rehabilitation, reconstruction and strategic development needs. This framework will guide UNCTAD's technical assistance programme in the short and medium term. Despite increasing difficulties in the provision of technical assistance, UNCTAD was able to initiate a new research project in 2002, while also achieving concrete progress on five other capacity-building projects. In consultation with Palestine, the secretariat is examining possibilities of initiating targeted technical assistance in new areas: food security and commodity trade; trade logistics and facilitation; trade promotion; trade policy and preferential market access; and investment promotion.

The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delimitation of its frontiers or boundaries.

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OTHER MATTERS IN THE FIELD OF TRADE AND DEVELOPMENT

Progressive development of the law of international trade: Thirty-fifth annual report of the United Nations Commission on International Trade Law

Note by the UNCTAD secretariat

Attention is drawn to the report of the United Nations Commission on International Trade Law on the work of its thirty-fifth session, held in New York from 17 – 28 June 2002 (A/57/17).

As provided in section II, paragraph 10, of General Assembly resolution 2005 (XXI), the report is being submitted to the Trade and Development Board for comments and recommendations.

Copies of the report in each language version received will be made available in limited quantities.

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